the crisis of social democracy a sustainable philosophy for the left

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The Crisis

British social democracy is now in crisis. By 'crisis' I mean something deeper than a bad election defeat in the wake of the recession, the lack of a coherent response to David Cameron's ambitions for a 'big society', or the prospect of large cuts in public spending. The crisis was coming anyway. Social democracy as we have come to understand it was becoming unaffordable. The recession has merely brought forward the moment of truth.

The election of Labour's new leader provides a rare, perfect chance to put matters right. A fresh mandate gives its holder great freedom, for a while. For a few weeks, a few months at most, they will be able to convert the party to a new political project. If the moment isn't seized, Labour is likely to retreat back to the deceptive comforts of a model of centre-left politics that no longer works. This would be doubly dangerous. It would condemn Labour to opposition for longer than is necessary; it could also lead to the tragedy of social democracy itself becoming discredited.

By 'social democracy' I mean the doctrine that a contented society is not merely a rich society; that public purpose is as important as private profit; and that the government has a duty to pass laws, levy taxes and provide money and services to protect people from the insecurities and depredations inherent in a market economy.

Unlike liberalism, social democracy believes that a strong state is needed to make life better for everyone, and that liberty and localism alone will not lead us to utopia. Unlike traditional socialism, it asserts that a properly functioning market economy is the best way to generate the money needed to finance our social ambitions.

Social democracy is a doctrine that should be more popular than ever. As the fervently social democratic historian Tony Judt put it in one of his last articles before his untimely death: 'We have entered an age of insecurity – economic insecurity, physical insecurity, political insecurity'. [1] Examples abound: globalisation has ended 'jobs for life', widened inequality and forced down wages for many workers; new graduates have difficulty finding suitable jobs and

affordable homes; immigration has unsettled many communities (perhaps unfairly, but insecurity is as much a subjective mood as an objective reality); and fears have erupted about terrorism and climate change. We can add to that list the global banking crisis. Few now dispute that a market economy requires an active government.

This ought, then, to be a great time for social democrats. Were a party's fortunes linked to the power of its philosophy, Labour would now dominate British politics. Instead its share of the vote this year was little more than in 1983. What has gone wrong?

Social democracy and political narrative

Part of the answer lies with specific features of this year's election with which we are all familiar. Gordon Brown was unpopular. The recession had undermined Labour's reputation for economic competence. The Conservatives had finally chosen a leader who did not repel a majority of voters. 'Time for a change' trumped 'don't take a risk'.

These things are all true, and important, but they do not tell the whole story. Were they to do so, Labour need do little more than wait for time to pass, memories to fade and the present government to fail. With a new leader and a plausible economic strategy, the party would soon be back in contention.

To take that view would be to make a grave mistake, for it ignores two more fundamental reasons why Labour lost this year's election. Without addressing these, Labour is doomed to spend years in the wilderness, just as it did in the 1950s and 1980s when it struggled to face up to the root causes of its unpopularity.

The first reason concerns the way Labour promoted its view of the world or, more accurately, failed to do so. In its 13 years in office, the party achieved some significant social democratic advances, but failed to combine them into a passionate and compelling argument for voting Labour. The list of advances will be familiar: minimum wage, tax credits, winter fuel payments, parental leave, shorter

hospital waiting lists, smaller class sizes, less child poverty, more police on the streets, Sure Start, NHS Direct, free museum entry and so on. Reforms also started the long-overdue process of making the public sector more responsive. Sadly, the impact of the whole was far less than the sum of the parts, because they were not successfully linked together.

This is not simply a British failing. To quote Tony Judt again:

Many European countries have long practiced something resembling social democracy: but they have forgotten how to preach it. Social democrats today are defensive and apologetic ... There remains a marked reluctance to defend the public sector on grounds of collective interest or principle. It is striking that in a series of European elections following the financial meltdown, social democratic parties consistently did badly; notwithstanding the collapse of the market, they proved conspicuously unable to rise to the occasion.[2]

In this country, the Labour Party has spent so long displaying its inclusive pragmatism and love of the mega-rich that its leaders seem to have forgotten that progressive politics is a moral crusade. It requires passion and anger and hope, not just the abilities to read opinion poll results and triangulate opponents.

This challenge requires more than clever phrases and slick slogans (though these should not be despised). It reflects the paradox that social democracy has become politically weaker precisely because most of its opponents have accepted its most basic precepts: the need for universal education, socialised health-care and tax-funded welfare. Since the 1950s, Labour has been unable to argue that it alone would levy taxes to provide help for all. Much the same is true for social democratic parties throughout Western Europe. They have lost their monopoly in the provision of more-or-less social democratic *policies* and failed to compensate for this by generating sufficient social democratic *passion*. One result has been an indifferent electoral record: in Britain, only once in thirteen general elections between 1950 and 1992 did Labour win a decisive general election victory.

Then, in 1997, Labour achieved its biggest triumph. Yes, the Conservatives were seen as sleazy, divided and incompetent; but Tony Blair also fought a campaign that contained some unmistakeable social democratic message – such as 'education, education, education' and 'twenty-four hours to save the NHS' on the eve of election day. Admittedly, Labour's specific promises were few and small: the big injections of cash into the public services came later. But voters thought Labour *believed* in the NHS and that the Tories did not.

Not everyone, perhaps not many, would subscribe to the view that social democratic fervour played a part in Labour's landslide. Yet the evidence suggests that millions of voters both wanted and expected a more moral, more principled and more progressive government. For example, Tony Blair insisted that tax rates would not rise but 61 per cent of voters expected taxes to go up under Labour.[3] When D:Ream belted out the party's campaign song, 'Things can only get better', the implicit message was profoundly social democratic: Labour would use the power of collective action to make life better. Just two years earlier, Labour adopted a new constitution with an explicitly social democratic message: 'by the strength of our common endeavour we achieve more than we achieve alone.'

One of the tragedies of the thirteen years of Labour rule is that, in the strict sense of the term, the party lost the plot. It implemented many social democratic policies but failed to develop a social democratic narrative. 'Thatcherism' had a clear definition, to do with a particular view of freedom. Its emblematic policies – privatisation, council house sales, curbing union power – were clearly connected. 'Blairism' lacked any such clarity.

Eventually, after the economy turned down and the Conservatives rejoined the modern world, Labour paid the price. It not only lost power, it lost its reputation as a champion of social democracy. In May 1997, 68 per cent of voters thought Labour was the best party for the NHS.[4] Thirteen years later, the figure stands at just 32 per cent.[5] In thirteen years of Labour government, the NHS's budget doubled in real terms and public faith in Labour as the best party

for the NHS halved. Labour's rating on education declined by a similar amount. And most people simply refused to believe that one of Labour's greatest public-purpose achievements – a large fall in crime – had happened at all.

The good news is that the failure to proclaim the virtues of social democracy can be rectified. The bad news is that tackling the second fundamental reason for Labour's unpopularity will be far tougher, for the crisis of social democracy goes far beyond a debilitating loss of confidence and moral energy.

Social democracy: A business model past its shelf life

Though hard to solve, the problem is easy to describe. Like any political creed, social democracy involves both 'diagnosis' (what is wrong) and 'prescription' (how to put things right). What has triumphed during the recession has been the diagnostic bit: insecurity has grown, and the unfettered market has failed. So there is the need for a social democratic response, but what kind of response? In the attempt to answer this question, social democracy has got itself into trouble: the strategy that worked in the second half of the 20th century will not work in the 21st.

Post-war social democracy rested on two pillars. The first was a broad political consensus that grew out of the Second World War: that we should work together to build the peace, just as we had done to defeat Hitler. Attlee's government transformed education, health and welfare, and lost not a single by-election in the process. Churchill's Tories returned to power only when they accepted Attlee's reforms.

The second pillar was economic. The British had been taxed so heavily during the war that it was possible to transfer public spending from military to social purposes and still permit rationing to ease and taxes gradually to fall. Moreover, the founders of the welfare state believed that its costs could be contained. With free medical care and better diets, people would be healthier; surely the annual costs of the new National Health Service would soon start to

fall? In any event, as Anthony Crosland observed in *The Future of Socialism* in 1956, economic growth would provide buoyant tax revenues: it would be possible to enjoy both 'liberty and gaiety in private life' *and* more generous public services in the years ahead.

Today, both pillars have collapsed. Public services are seen as inefficient. Most people think Labour wasted most of the extra money it spent on the NHS.[6] Today, the idea of government action still holds appeal (there has been little decline in the sentiment that 'something should be done' to tackle a wide range of social problems), but the public are sceptical about the capacity of politicians to make good decisions or public officials to implement effective policies. The contrast with public sentiment in the early post-war years could not be more marked. Most people think that the brunt of the task of cutting government borrowing should be borne by cuts in public spending rather than increases in taxation. [7]

All this would present huge challenges for social democrats, even if the early post-war optimism about the cost of implementing social democratic measures had been borne out by experience. In fact, the opposite has happened and this is why the second pillar has collapsed.

Table 1: Departmental spending and GDP over time [8]

Year	Spending on health, education and social security			Gross Domestic Product	
	At contemporary prices (£bn)	At 2010 prices (£bn)	As % of GDP	At contemporary prices (£bn)	At 2010 prices (£bn)
1953-54	2	43	11	17	390
1978-79	34	147	20	174	754
1996-97	182	256	23	792	1111
2009-10	408	408	28	1442	1442

Table 1 shows how the three main components of 'social democracy spending' – health, education and social security – have grown since 1953 (the first year for which the Institute for Fiscal Studies has been able to compile comparable year-by-year data). In cash terms, the increase has been: from £2 billion in the year of the Queen's coronation to £408 billion today. Part of that reflects the impact of inflation: prices generally have increased twenty-fold over the past 56 years. In today's prices we find that we spend almost ten times in real terms as much on these three big social democratic causes as we did in the early Fifties. NHS spending is up eleven-fold: so much for Crosland's hope that its cost would decline as we became a healthier nation.

How have we been able to afford such big increases in spending? National income is almost four times higher than in 1953-54. So we could afford to quadruple health, education and welfare spending without these services adding to the tax burden, as a percentage of GDP. But spending has risen faster than that, so the burden has increased, from 11 per cent of GDP in 1953-54 to 28 per cent this year. And it's worth noting that, whatever we like to think about the Thatcher/Major years, 'social democracy spending' rose by 75 per cent in real terms between 1979 and 1997, and from 20 per cent of GDP to 23 per cent.

Taking the 17 point increase over the past 56 years (from 11 per cent to 28 per cent of GDP), some of the extra costs have been funded by cuts elsewhere, most notably defence, where spending has declined from 9 per cent of GDP in the early Fifties to less than 3 per cent this year. In all, roughly half the extra burden of 'social democracy spending' has been met from savings elsewhere. The other half has come from higher taxation.

Now, if 'social democracy spending' could be contained over the next 20-30 years so that it rises no faster than GDP, then there would be no great problem funding it. This is not the same as the kind of short-term savings that the Coalition is seeking in order to reduce government borrowing. Such savings will ease the financial pressures, but only for a while. The longer term stresses will soon reappear.

This is because most of the components of 'social democracy spending' are what economists call 'superior goods': the richer we grow, the more of them we demand. We stay in education longer and want our classes to be smaller and our schools better equipped; we seek the best and latest remedies for our ills; we live longer and want to live better during our longer retirements. For all these reasons, our demand for 'social democracy spending' grows faster than national income.

In the short run, there is much legitimate mischief to be had at the Coalition's expense as it proves unable to protect frontline services completely. But honesty should impel all serious social democrats to recognise the more fundamental crisis: that the traditional means of finding extra cash to meet the rising costs of social democracy are no longer available. Defence no longer costs enough for further 'peace dividend' savings to help much. Even scrapping nuclear weapons when Trident expires would help only fractionally. We need to spend more, not less, on infrastructure: a traditional target for urgent cuts. Most important of all, we are at or near the maximum level of overall taxation that the electorate, and Britain's status as an open economy, will bear. Even without the recent recession, and sharp increase in government borrowing, social democracy in its familiar form was on the verge of becoming unaffordable. However much we may wish it otherwise, the conclusion is inescapable: social democracy needs a new business model.

Rethinking social democracy's business model and political narrative

How can social democracy continue to fight for the collective good, for social justice and for a view of human wellbeing that includes, but goes beyond, material wealth? Specifically, how can we reconcile the growing need to 'redress the rigours' of our time with the unfortunate truth that the social democratic spending train has hit the buffers?

Here are six proposals:

1. Reduce universalism.

   The case for universalism in the provision of services and welfare is strong. It aids social cohesion. It reflects the insurance principle, that all contribute and all have the right to benefit. It embodies all that is best about social democracy.

   But it is also expensive. The time has come to confine universalism to those services that have specific merit. The biggest are health and education: to a social democrat it is fundamental that children from different backgrounds should attend school together and everyone should have the right to decent health care when they need it.

   Cash transfers fall into a different category. Much is spent providing people comfortably off people (like me) with child benefit, state pensions and the winter fuel allowance. My Freedom Pass can be added to the list: I do not receive any cash but I save money by travelling free on London's tubes and buses. The term 'means test' has acquired unpleasant overtones, partly because of the humiliating process that too many people go through to secure the benefits to which they are entitled. One of the challenges for social democrats is to find ways that command respect to target cash and near-cash benefits at those who need them most (see also point 3 below).

2. Use co-payments to increase the cash available for public services.

   If tax revenues are not big enough, other sources of money must be found. An obvious example is road-pricing. New technology allows us to use smart means to charge motorists for driving on our roads, with different rates for different types of road and different times of day. We should also examine how other countries, whose health services work better than ours, provide a universal service but require better-off people to make a contribution, for example for

visits to their GP. Co-payments should be a social democratic cause, because well-funded public services are a social democratic cause.

3. Steer, don't row: the government can steer by deciding the law, but should leave delivery to others.

   We should learn from the 'reinventing government' agenda first developed in the United States twenty years ago. Its key insight was that we should distinguish between objectives (what services and support should be provided and to whom) and methods (who should deliver those services). Take motor insurance: the law says drivers must have adequate insurance, but the insurance itself is provided by private companies competing for our custom.

   This principle could be applied over time to social insurance – unemployment, retirement and so on. British society has changed vastly since the 1940s; the system of social insurance that was best for then may not be best for today. If transfer payments were restricted to the neediest, then it would be possible both to save money and reduce poverty (by increasing the amounts paid to the poorest households). Employed people would then be required to take out insurance against unemployment, and to save into a pension fund; the Government would set minimum standards. Like motorists, workers would be free to shop around and decide how much to pay, if anything, for higher levels of cover. One option would be for a publicly-owned body, such as the Post Office, to compete on a commercial basis with the private sector. The point is that workers would be able to choose; and their premiums would not be taxes or compulsory National Insurance payments.

4. Restore fairness to housing policy.

   Home-owners, and especially well-off home-owners, are pampered to a ludicrous extent. They pay no capital gains tax on the profits they make and owners of the most expensive

homes pay only three times as much council tax as the owners of the smallest, most run-down homes. We are encouraged to use our homes not just as places to live but as tax-efficient savings vehicles. The result is house prices rising on average twice as fast as earnings over the past forty years; first-time home-buyers finding it harder to get on the home-owning ladder; and now more restrictive post-recession lending rules for banks, making this problem even worse.

Two simple reforms would help: first, double the council tax on band H homes, halve the tax on Band A homes and alter the intermediate rates accordingly. This would make council tax broadly proportionate to the value of property: band H homes are typically worth twelve times band A properties, and would attract twelve times the level of council tax. Second, levy capital gains tax on sales of homes, and use the money to build more social housing. These measures should reduce the demand for homes that are bigger than we need, moderate the long-term rise in house prices and increase the supply of homes for rent. Income is becoming easy to transfer from one country, or tax jurisdiction, to another. Physical property is harder to shift. The sooner we start to make this change, the better.

5. Create a ‘National Jobs Service’.

   The first four proposals have suggested ways to build a new business model for social democracy. But, as this essay has argued, we live in an age of insecurity where needs are growing for collective action to achieve private contentment. In some areas government spending will have to increase.

   One such area is unemployment. Despite the value of individual schemes, such as the New Deal after 1997, neither Labour nor Conservative governments have cracked the problem completely since unemployment first climbed above one million in the 1970s. For some of those out of work, joblessness has become a way of life. For millions in work,

fears of unemployment are more intense than they used to be.

A 'National Jobs Service' could make a difference. Anyone out of work for more than six months would be offered local, community work for 20 hours a week at the Minimum Wage. Benefit payments would be additional, but would be conditional on this work being done. The work could include a training element. It should certainly be organised at the most local possible level, by local councils, housing associations, trade union branches, co-operatives or voluntary organisations, so workers feel some sense of ownership over the projects in which they are involved. Whatever the detailed arrangements, the aim would be to meet three objectives: to retain (or instil) the habit of working; to retain (or enhance) levels of skill; and to do local jobs that need doing.

6. Rethink equality.

   The debate about equality has become far too narrow. It is generally defined in terms of income. When people say Britain became more unequal during Labour's years in office, they point to figures that show the gap between high earners and low earners, or to those living on state benefits.

   The weakness of this approach can be seen from the following thought experiment. Total NHS spending this year is £124 billion. Suppose the government decided to abolish the NHS completely, tell people to make their own arrangements for health care and hand out the full £124 billion in cash. One way of doing this would be to give £10,000 a year to every household whose annual income is less than £20,000. Poverty, defined as households subsisting on less than 60 per cent of median income, would disappear overnight.

   In practice, of course, there would be terrible consequences. Many would be unable to afford expensive treatment. Long-

term care and the treatment of chronic illnesses would collapse. Money and profit would matter more, while need and equity would matter less. Insurance companies would refuse to cover (or charge vast amounts to cover) anyone with existing long-term medical problems. Life expectancy for many would decline. In short, the total abolition of the NHS would be a catastrophe.

Conclusion

And that's the point. Equality and social justice are not adequately measured by calculations confined to the income scale. Social democrats should not fall into the trap set by pro-market enthusiasts of reducing all judgements to money.

The challenge for social democrats is to expand the concept of equality, to ensure that everyone has the opportunity to be involved, secure and full citizens. This is not just about money. It is also about culture, health, clean air, attractive public spaces, decent housing, good schools, healthy eating, access to new skills and freedom from the fear of crime. It is to aspire to a society in which money matters less, because it ceases to be the necessary passport to a fulfilling life. We should not need to be rich to be fit, safe or contented, or to enjoy the beauty and stimulation that nature and human imagination have to offer us all.

This opens up a wider social democratic agenda which is less to do with income distribution and more to do with the texture of the society we want to create: affordable fresh food for inner city housing estates; extended schools hours (providing breakfast in the morning and more clubs and homework support after 3.30pm); tougher pollution controls; local, live performing arts; more neighbourhood policing; better public transport and so on.

Some of these things will need more money, which adds to the imperative to develop a new and more sustainable business model for social democracy. But the pursuit of these objectives, alongside the other proposals listed above, would help to rescue a doctrine that is mired in crisis, and to fend off the alternative, right-wing prospectus: that the way out of the present crisis is for the state to do far less. It

would also allow social democratic politicians to speak once more with passion about the virtues of public purpose and collective action. Above all, it will provide Labour's new leader with something they badly need: a compelling but also realistic story about how to build a better Britain.

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NOTES

[1] *New York Review of Books,* April 29, 2010
[2] *New York Review of Books*, Ibid
[3] BBC exit poll; *Vacher Dod Guide to the new House of Commons 1997*, p xx
[4] *British Political Opinion 1937-2000: The Gallup Polls*, Politico's, p 75.
[5] YouGov survey, August 8-9, 2010: http://today.yougov.co.uk/sites/today.yougov.co.uk/files/YG-Archives-Pol-Trackers-Issues-100810.pdf
[6] http://today.yougov.co.uk/sites/today.yougov.co.uk/files/YG-Archives-Pol-Demos-Govt-210510.pdf
[7] See http://today.yougov.co.uk/sites/today.yougov.co.uk/files/YG-Archives-Pol-Suntracker-103025.pdf
[8] I am indebted to Robert Chote of the Institute for Fiscal Studies for drawing the data together from a variety of Treasury, Office of National Statistics and other official sources.

British social democracy is in crisis. It is more significant than a bad election defeat in the wake of the recession, the lack of a coherent response to David Cameron's ambitions for a 'Big Society', or the prospect of large cuts in public spending. The crisis was coming anyway. Social democracy as we have come to understand it was becoming unaffordable. The recession has merely brought forward the moment of truth.

But social democracy is a doctrine that should be more popular than ever. Globalisation has ended 'jobs for life', widened inequality and forced down wages for many workers; new graduates have difficulty finding suitable jobs and affordable homes; immigration has unsettled many communities and fears have erupted about terrorism and climate change. Then came the global banking crisis. Few now dispute that a market economy requires an active government. This ought, then, to be a great time for social democrats.

In this paper Peter Kellner, president of YouGov, looks at where social democracy lost its way and makes six proposals to bring the doctrine into today's political discourse.

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