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# Can Social Democracies Survive in the Global South?

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**T**O SUCCEED, social-democratic movements in the global South must steer a course toward a society without poverty or social exclusion, avoiding two current utopian projects. The first utopia is a neoliberal fantasy, the self-regulating market. In the words of Karl Polanyi in *The Great Transformation*, this “would result in the demolition of society,” with humanity “robbed of the protective covering of social institutions.” The second utopia, subscribed to by some tendencies in the global justice movement, advocates “delinking” and “localization” as “post-growth” strategies for achieving environmental sustainability, grass-roots democracy, and genuine community. In contrast, social democracy constitutes what the disillusioned Yugoslav communist, Milovan Djilas, approvingly called an “unperfect society.” The pursuit of perfection leads to despotism, Djilas warned; far better, then, to opt for perpetually “unperfect” societies—like those in Scandinavia—that pragmatically strive to reconcile liberty, equity, and community with the demands of a market economy.

Proponents of the self-regulating market, though still highly influential, have recently seen their ideological hegemony eroded. The erosion was evident by the late 1990s in the increasingly heterodox and critical declarations of influential economists such as former World Bank chief economist Joseph Stiglitz and former “shock therapy” advocate Jeffrey Sachs; in the oft-noted neoliberal “reform fatigue” in developing countries; and in the growing criticism of neoliberal prescriptions by left-of-center governments and popular movements, especially in Latin America. Behind this loss

of confidence lies one irrefutable fact: market-oriented reforms in the global periphery have produced disappointing, and frequently destructive, results.

The second utopian project proposes “delinking” from global capitalism. Its proponents reject efforts to reform global governance, claiming that people in the developing world cannot improve their welfare within global capitalism. “Post-growth” or “de-growth” advocates rightly point to the harmful environmental impacts of exaggerated consumerism and unregulated economic expansion. Like “localization” supporters, however, they call for an unrealistic future: self-contained communities and the reduction or even elimination of long-distance trade. Rarely do they acknowledge that economic growth in poor countries can improve well-being. Moreover, “localization” and “post-growth” enthusiasts say little or nothing about how the funds necessary to purchase goods undersupplied locally would be generated or how communities could enforce limits on firm size and long-distance commerce.

If progressive movements in the developing world resist seduction by unrealizable utopias, what path remains? What, in particular, is the likelihood of the emergence and survival of social-democratic regimes, which reconcile the exigencies of achieving growth through globalized markets with genuine democracy and social equity? To answer this question, we undertook a comparative analysis of four exemplary cases: Kerala (a state of India), Costa Rica, Mauritius, and Chile since 1990. Each social-democratic regime has survived for many years, and each has achieved an exceptional record of socioeconomic development in comparison to others in its region or country.

Yet these four cases are not the only ones we could have chosen. True, some other countries in the global periphery saw their social-democratic progress interrupted as a result of

ethnically based civil strife (Sri Lanka after 1977), coup d'état (Uruguay in 1973), economic decline (Michael Manley's Jamaica), and/or degeneration into populism and corruption (Venezuela in the 1970s and 1980s). In contrast, the Communist Party of India (Marxist) (CPI[M]) has, in practice if not in rhetoric, led a social-democratic regime in West Bengal, India, for twenty-nine years. And a widespread backlash against free-market prescriptions in Latin America since 2000 has brought the democratic or quasi-democratic left to power in countries accounting for more than three-quarters of the region's population: Brazil, Argentina, Venezuela, Ecuador, Uruguay, and Bolivia, as well as Chile (especially since the election there of socialist presidents in 2000 and 2006). Excluding left-populist Venezuela, chaotic Ecuador, and untested Bolivia, governments in the remaining countries have developed strong social-democratic credentials. What unites all these regimes is not socialist doctrine, but the view that failed neoliberal prescriptions should be replaced with egalitarian and often nationalist policies, combined with a more central economic role for a democratized state. Meanwhile, in East Asia, intense electoral competition, well-organized popular movements, and the economic crisis of 1997–1998 have pushed recently democratized governments in Taiwan, South Korea, and elsewhere in a social-democratic direction. Our four hopeful cases cannot, therefore, be construed as lonely exceptions within a neoliberal global South.

Without minimizing the obstacles, we propose that our comparative analysis demonstrates the possibility of a social-democratic route in the global periphery. This possibility rests on two significant findings. First, the four examples are not historical accidents. Though unusual, the social and political conditions from which these developing-world social democracies arise are not unique; indeed, pragmatic and proactive social-democratic movements help create these favorable conditions. Second, these cases have accommodated, but avoided capitulating to, global neoliberalism (construed as pressures to liberalize markets, reform states, and open economies to cross-border flows of goods, services, and capital). These four cases

have preserved or even improved their social achievements since neoliberalism emerged as hegemonic in the 1980s.

### **Making Social Democracies**

Although the conditions that favor social democracy in the periphery are, in combination, found in few developing countries, political action can help create some of these conditions. Social democracies make themselves as much as they are made.

The conventional wisdom about the social origins of social democracy lies more in the realm of myth than reality. Consider, for example, this explanation of the unlikelihood of social democracy in Latin America by Kenneth Roberts in his 1998 book *Deepening Democracy? The Modern Left and Social Movements in Chile and Peru*:

Historically, social democracy has been grounded in conditions that are not present in contemporary Latin America and are highly unlikely to develop under an increasingly transnational neoliberal model of capitalist development—namely, centralized and densely organized labor movements that have close political ties to socialist parties, ample fiscal resources to sustain universal norms of social citizenship, and domestic power balances that spawn institutionalized forms of class compromise in which democratic checks are placed on the privileges and functioning of capital.

If these historical conditions are necessary, egalitarian social democracy is destined to remain a marginal tendency in Latin America—and throughout the developing world.

Yet the prospects are not as hopeless as this prognosis suggests. Even in the prototypical Scandinavian cases, neither an organized labor movement nor socialist parties account for the initial social reforms in the late nineteenth and early twentieth centuries. Instead, according to historian Peter Baldwin (in *The Politics of Social Solidarity: Class Bases of the European Welfare State 1875-1975*), the origins of the social-democratic welfare state can be traced to struggles over who should bear the extensive costs of poor relief between the ascendant agrarian middle classes and the traditional, urban-based elites. In Denmark, for example, an emergent Liberal Party, which represented

small farmers and peasants in this incipient democracy, challenged the hegemony of the urban-based and traditionalist Conservative Party. The agricultural crisis of the late nineteenth century heavily increased the costs of poor relief to these rural groups, as poor relief was financed from local land levies. In 1891, moderate free-trading Liberals and protectionist Conservatives arrived at a compromise that included an agreement to create a universal, tax-financed, and non-contributory pension scheme. A universal scheme was devised because of the heterogeneity of the rural work force; it made little sense to try to distinguish between the self-employed and the dependently employed. This decision to grant all classes a tax-financed benefit shaped subsequent developments. Later on, the Social Democratic Party and the union movement, both of which had initially favored a program targeted to the poor, embraced the principle of universality. With their firm backing, social assistance was expanded into a universal, comprehensive, and generous welfare state between the 1940s and the 1960s.

This is not to suggest that Latin America, or developing countries more generally, will follow the Scandinavian pattern, but only to cast doubt on the notion that an organized working class linked to powerful socialist parties is a necessary or sufficient condition for the *birth* of social democracy. In Europe, it was not a struggle between the “have-nots” and the “have-alls” that led to this outcome; instead, groups in the middle provided the key to the winning coalitions that shifted tax burdens and established universal social insurance. The peasants, small farmers, and urban middle classes, together with organized labor, may continue to be arbiters of social-democratic politics in developing countries, as they were in northern Europe over a century ago.

Nevertheless, the preconditions for the emergence and survival of social democracy in the periphery remain stringent. We divide these preconditions into three categories, ranging from the most remote or long-term (structural factors) to the more proximate (developmental patterns and situational factors).

A key *structural factor* that Kerala, Chile, Costa Rica, and Mauritius share is their early

and deep, albeit dependent, integration into the global capitalist economy. Although a large and organized labor movement is not a precondition of social democracy, a capitalist social formation is. Social democracy cannot survive in the oppressive environment engendered by the survival of quasi-feudal relations, a traditionalist landlord class, and a peasantry enmeshed in dependent relations with them. Hence, capitalist transformation is crucial. An important associated process is state formation, impelled by either centralizing colonial or postcolonial elites or demands from below (or a combination of the two). A relatively coherent and effective state with some autonomy from dominant classes must emerge, for social-democratic regimes require states that can negotiate equitable social pacts, guide market forces, and administer social programs. But effective and relatively autonomous states are rare in the global periphery.

**T**HE SECOND precondition concerns the *pattern of socio-political opportunities*. The most promising is a commercialization of agriculture that weakens the landlords while strengthening the working and middle classes. This creates small farmers and peasant proprietors whose vulnerability to market forces predisposes them to socializing risks. As market relations erode the traditional forms of solidarity and reciprocity, social democracy may emerge as a modern, national system for subordinating markets to norms of mutual security, trust, and equity. A robust civil society, we find, is also critical in understanding the emergence of social-democratic forces. As Dietrich Rueschemeyer, Evelyne Stephens, and John Stephens point out in their classic 1992 study *Capitalist Development and Democracy*, “the growing organizational density of civil society not only constitutes an underpinning for the political organization of subordinate classes, but it also represents a counterweight to the overwhelming power of the state apparatus.”

Finally, we arrive at the most immediate—*situational*—factors shaping social-democratic trajectories. A particular pattern of capitalist transformation, state formation, class structure, and civil society does not necessarily produce a social-democratic regime. In order for that

to happen, there must be a coming together of several factors at critical junctures in a country's history. Through political struggles, the "people united" propel a society down a chosen path. Left-of-center movements, parties, or coalitions commanding substantial policy-based support are usually the central actor. Organization is the principal way of empowering the poor. Progressive parties and movements must be capable of maintaining control of their mass base; otherwise, nationalization of enterprises, seizures of plants, or looting will panic the capitalist classes, leading to a coup, a debilitating capital flight, or unsustainable populist demands.

**O**THER IMPORTANT situational factors include superpower machinations and international ideological influences. Cold-war rivalries impeded the installation and survival of reformist or left-wing regimes for many years. Ascendant neoliberal international agencies, especially the World Bank and the International Monetary Fund (IMF), have pressured all governments to conform to the new orthodoxy—though recently with notably less success.

In practice, these factors intertwine to shape class compromises. On the one hand, social democracy requires a configuration of class forces that can induce a capitalist class to accept a smaller share of the surplus in exchange for legitimacy, political and social peace, and high productivity. This exchange is facilitated by a particular kind of capitalist transformation, one that increases the potential power of small farmers and middle sectors and/or a working class while weakening (or avoiding the emergence of) groups with an interest in preserving predemocratic and precapitalist institutions. However, realizing this potential power requires political action—both self-organization and the mobilizational work of left parties—and astute leadership. On the other hand, the influential organizations of the economic elites must be convinced that subordinate classes will not threaten private property. Social pacts are therefore quite variable, depending not only on the balance of class forces, but also on (a) the exigencies of a social and political crisis whose resolution de-

mands political realignment and (b) the perceived reliability and organizational discipline of the social-democratic movement.

At one extreme is the minimal social pact of post-1990 Chile. A radicalized and highly mobilized socialist movement, spearheaded by the working class, had been decisively and brutally defeated in a coup against the Popular Unity government of Salvador Allende in 1973. Augusto Pinochet's dictatorship virtually eradicated the radical left (whose leaders were imprisoned, "disappeared," or driven underground or into exile), imposed stringent restrictions on unions, demobilized civil society, reasserted market relations, and bequeathed a constitutional system that buttressed the power of the right. Since the return to civilian rule, the center-left *Concertación* has retained the high-growth neoliberal economic model and abjured political polarization, while increasing the flow of services and benefits to poorer Chileans. But the coalition of Socialists and Christian Democrats has been able to extract only modest concessions from a rejuvenated and powerful business class. Inequality remains pronounced, and agricultural workers, in particular, remain poorly paid and marginalized. A series of negotiations with business associations has yielded mainly limited-term increases in corporate taxes to finance the "social deficit" in the 1990s and minor reforms of the repressive labor code inherited from the Pinochet dictatorship. However, the poverty rate has been cut in half since 1990, a major success by regional standards (and one that the left in Latin America has been loath to acknowledge). This minimal social democracy (a "Third Way" in Anthony Giddens's sense) is a work in progress: the election of Socialist Ricardo Lagos in 2000 led to a deepening of social citizenship and constitutional reform, a process that his recently elected Socialist successor, Michelle Bachelet, has promised to continue. The gradual extension of social protection reflects the continuing relevance of class politics, which arises from earlier cycles of mobilization.

At the other extreme is the egalitarian class compromise in Kerala. Before independence, the states that amalgamated in 1956 to form Kerala featured strong caste divisions—quasi-feudal relations in large areas of the country-

side and widespread poverty—apparently barren soil for social democracy. In the princely states of Travancore and Cochin, however, there was a history of political mobilization along class/caste lines dating from the late nineteenth century. Caste-based associations opposed the social inequalities of the caste system. Meanwhile, in the north (Malabar), peasant insurgencies challenged Brahmin landlordism. Socialists within the Indian Congress Party linked the nationalist and social reform movements within what became Kerala, thereby drawing on agrarian discontent in the anticolonial struggle. Nationalism in this area thus became a lower-class movement against the colonial-feudal nexus. After the socialists broke with Congress in 1941 to form the Communist Party of India, they organized this lower-class protest. This protest fed into a peaceful, democratic process because the colonial order was open enough to allow these tactics to succeed. Eventually, the CPI(M) (formed from a split in the CPI) built an alliance of the agrarian poor and the proto-proletariat that overturned the remaining precapitalist social structures through agrarian reform. This reform established a large smallholder sector. Hence, political action helped to forge the material basis for a class compromise that heavily favored the subordinate classes. That Kerala was a state within a federation that respected private property ensured that the CPI(M) would work within the capitalist system, irrespective of its revolutionary rhetoric.

Although the class compromises, and the social democracies to which these compromises give rise, emerge from specific conditions, social-democratic thinking provides guideposts for political action even where immediate breakthroughs appear improbable. Eduard Bernstein's message a century ago—that leftist parties should not passively wait for the maturing of structural conditions but actively mobilize popular support—remains applicable today. By nurturing the capacity of subordinate classes and groups to engage politically, encouraging policy-based and specific demands, and pressing for localized initiatives of popular empowerment, these parties advance the political project. In Jorge Castañeda's

words (in *Utopia Unarmed*), the left should focus on “democratizing democracy.”

### Living with Globalization

Even if social democracies emerge, will they last? Globalization—the integration of national economies into global markets through the increasingly unrestricted flow of trade, investment, finance, and skills—is commonly regarded as a major threat to their survival. Actually, the implications of global integration for developing-world social democracy are mixed. Our four hopeful cases—Kerala, Chile, Costa Rica, and Mauritius—have learned to live with globalization. Although the process does limit national economic decision making, equitable development strategies also offer certain industries competitive advantages in the global economy.

According to the skeptics, freeing the cross-border movement of capital, goods, services, and skills increases the leverage of capital vis-à-vis national governments, local communities, and employees, and thus weakens the national capacity to impose equity-related costs upon business. Capital mobility makes credible investors' threats to bypass, or exit from, jurisdictions with high taxes and employee benefits or “excessive” regulations. Also, such powerful institutions of international economic governance as the IMF, the World Bank, and the World Trade Organization press their neoliberal agenda upon less-developed members. These pressures, so the argument goes, undercut social democracy by requiring progressive market liberalization (including flexible labor markets), shrinking the public sector, and reversing the comprehensiveness and universality of tax-supported social programs.

And yet our four cases have not only preserved or improved their social achievements during the era of globalization, they have also (with the partial exception of Kerala) advanced their competitive position by diversifying their exports. They have achieved this feat by undertaking only a gradual and selective liberalization while capitalizing on the legacy of social-democratic policies: a healthy and educated labor force, an advanced infrastructure, well-ordered industrial relations, and political legitimacy and peace. There is no necessary

trade-off between selective liberalization and the maintenance or promotion of social equity, provided a well-organized leftist party/coalition holds power democratically and/or popular movements remain vigorous in defense of social programs. Social democracies may have higher costs than other countries; but prospective investors weigh these costs against productivity-enhancing human capital, good infrastructure, and superior conflict management, which together safeguard social cohesion and industrial peace. These advantages will not persuade export-oriented producers of labor-intensive and low-skilled goods, such as textiles, to continue manufacturing activities in high-cost locations. However, state-supported efforts to increase productivity and diversify to more technology-intensive exports can compensate for rising labor costs. High-quality human capital and advanced communications facilities are attractive to investors in an increasingly knowledge-based economy. Social democracy in the periphery can therefore adjust to global market integration through astute industrial and labor policies.

**D**OES THIS adjustment involve movement toward a diluted third way? The vagueness of this model, not to mention the negative response it evokes on the ideological left, makes the question a difficult one to answer. Many writers have used the term to describe the myriad ways in which “old-style” or “traditional” European social democracies have adapted to new realities since the late 1970s. These include not just closer global economic integration and the hegemony of neoliberal ideas, but also the transition to postindustrial economies with diminished industrial working classes, the growth of individualism, and aging populations that place financial stress on welfare states. Scholars now designate even such prototypes of social democracy as Sweden, Denmark, and the Netherlands as third way regimes. Obviously, not one, but many “third ways” exist, each one a particular synthesis of left and right. What all have in common is the surrender of the socialist vision in favor of humanizing capitalism and concessions in the form of privatizations, public-private partnerships, and an emphasis on supply-side

measures to enhance employment and increase productivity and equity. If this is what we mean by the third way, then Costa Rica, Mauritius, and Chile have certainly moved in that direction.

However, we define the third way more specifically to fit the reality of New Labour in Britain since 1997 and Chile since 1990. Both New Labour and *Concertación* represent social-democratic governments governing primarily in a neoliberal direction while trying to maintain their traditional working-class and public-sector middle-class support, with all the compromises and confusion that such a strategy entails. By this definition, the third way includes equality of opportunity, not results, as seen primarily in the public provision of education, training, and health facilities (albeit within a “two-tier” system); fiscal and monetary discipline; a minimum safety net for those who cannot compete; targeting of some social benefits and protections; private delivery of some public services; extensive privatization; and industrial policies to diversify exports and attract investment.

If we conceive the third way in this restrictive sense, our cases suggest only a weak tendency in this direction. Kerala remains a radical social democracy. The Left Democratic Front government (1996-2001) responded to the challenges posed by the bureaucratic rigidities of a dirigiste state and by India’s neoliberal reforms (since 1991) by simultaneously adopting policies to attract private investment and by deepening participatory democracy. The LDF reasserted popular power by launching the People’s Campaign for Decentralized Planning in 1996. This campaign involved transferring more authority and resources (33 percent to 40 percent of the state’s planning budget) to local governments, while enhancing their participatory structures. Many development projects—roads, housing estates, water services, child care, and the promotion of local agriculture—are now planned and implemented at the local level. Attesting to this program’s popularity, the Congress-led state government since 2001 adjusted, but did not fundamentally alter, this initiative. Kerala, therefore, does not fit the pattern of the third way. However, Kerala, as a state within a fed-

eration, does not exercise the same policy levers or face the same exigencies as our other cases.

Chile is, of course, a pioneer of the minimalist third way in the developing world. This limited outcome reflects the demobilization of popular movements under Pinochet and their continuing weakness under subsequent governments, the severe limitations imposed by the 1980 Pinochet Constitution (amended only in July 2005), the power of an intransigent and cohesive corporate elite, and the *Concertación's* concern not to sabotage an economic model that has generated growth and employment. Nonetheless, the 2000 and 2006 elections of socialist presidents may herald, a neoliberal route to social democracy rather than a social-democratic route to neoliberalism. The government has undertaken constitutional reform, prosecuted human-rights offenders from the Pinochet era, enhanced public health and education, and initiated an unemployment insurance scheme. Until 1998, a high-growth economy generated abundant new jobs that

lifted many Chileans out of poverty. Slower growth since 1998, however, may give impetus to a more radical social-democratic model, as poorer Chileans share the general Latin American disillusionment with neoliberalism.

OF THE REMAINING two cases, Costa Rica in certain respects moved toward the third way in the 1990s. Costa Rica and Mauritius initially had a fairly similar array of state-owned enterprises, import-substitution measures, subsidies, incentives to investors who engaged in mandated activities, and superior public services and social security arrangements. But Costa Rica's severe economic difficulties in the 1980s, combined with the end of U.S. benevolence (coincident with the 1990 electoral defeat of the Sandinistas in nearby Nicaragua), heightened pressures to conform to neoliberal ideology. President José María Figueres Olsen publicly endorsed a third way in the mid-1990s (defined by him as lying between old-style statism and the current Chilean model). This approach has, in practice,



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entailed halfhearted market-friendly reforms: conservative fiscal and monetary policies; financial and trade liberalization; a few privatizations of money-losing enterprises; and efficiency-enhancing market mechanisms introduced into public pensions, education, and health care. However, the level of public investment in these central pillars of the welfare state has not fallen—nor is it likely to, in light of the public's attachment to the programs. And a democratic developmental state continues to orchestrate a diversification of the economy. It is therefore premature to classify Costa Rica as a third way state. More accurately, we can speak of a system reinventing itself while maintaining universal entitlements and social spending levels and remaining publicly committed to reducing exclusion and inequality. A creative synthesis—a third way in the broader sense—may result.

Mauritius has experienced less change in its classic social-democratic regime. The country went through severe economic difficulties in 1979–1980 that required an IMF structural adjustment program; but the government's success in quickly rectifying the problems, and avoiding subsequent crises, made social-democratic continuity possible. The country has not had to return to IMF tutelage since the early 1980s. Mauritius has diversified its economy from its initial dependence on sugar exports to encompass tourism, textile manufacturing, financial and business services, and most recently (and ambitiously) information and communications technology services. However, preferential trade arrangements involving sugar and textiles contributed heavily to this success. The current phasing out of these arrangements may increase pressures on the government to deregulate labor markets and pare the size and role of the public sector—that is, to move further toward the third way. Small island economies lacking trade preferences are highly vulnerable to shifting global market conditions.

In sum, globalization and social democracy in the periphery may be more compatible than is commonly thought. Our cases have demon-

strated pragmatism and adaptability in adjusting to external economic circumstances. It is not inevitable that this adaptation will take the form of a diluted third way. Politics continues to shape this adaptation, its impact determined by the degree of popular mobilization, the extent of inequality occasioned by neoliberal policies, and regional shifts in popular attitudes toward neoliberalism.

**S**Ocial democracy starts from the premise that unregulated markets generate unacceptable levels of inequality, suffering, and injustice, and that democratically directed state action, especially in the area of distribution of the social product, is required in order to achieve a minimally humane society. Our study demonstrates the *possibility* (though not the imminent widespread adoption) of social-democratic routes in the global periphery. Few developing countries have the combination of social, economic, and political conditions that favor social democracy. Nevertheless, some of these conditions can be shaped by proactive political movements. Globalization challenges social-democratic experiments, yet these challenges exist alongside factors that have given some of these experiments at least a provisional lease on life. Making progress in this difficult context—as Kerala, Costa Rica, Mauritius, and Chile have managed to do—requires state capacity, constant innovation, and an informed and mobilized citizenry. The effort to extend this social progress to other developing countries will be one of the central dramas of the twenty-first century. ●

This article draws on the authors' *Social Democracy in the Global Periphery: Origins, Challenges, Prospects*, to be published by Cambridge University Press in September. **RICHARD SANDBROOK** and **JUDITH TEICHMAN** are professors of political science at the University of Toronto, **MARC EDELMAN** is a professor of anthropology at Hunter College and the Graduate Center, CUNY, and **PATRICK HELLER** is an associate professor of sociology at Brown University.

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