

## 1 Social democracy in the periphery

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In *A Bias for Hope* (1971, 28), Albert O. Hirschman enjoined social scientists to embrace “a passion for the possible.” Our primary task, he noted, is to understand *probabilities*, in the sense of uncovering regularities and uniform sequences. If we limit ourselves to this task, however, we risk fortifying a paralysis of the will by casting situations of backwardness, injustice, or oppression as the inevitable outcome of universal laws. Hopeful cases of social progress will then be dismissed as merely exceptions to the general rule. To avoid this negative tendency, social scientists should also search for *possibilities* – the often hidden opportunities for valued change that lurk in a particular situation. Hirschman’s own work sought to widen the limits of what is, or is perceived to be, possible.

This book seeks to do the same thing. It focuses on social-democratic regimes that have, to varying degrees, reconciled the exigencies of achieving growth through globalized markets with extensions of political, social, and economic rights. We show that opportunities exist to achieve significant social progress in the periphery, despite a global economic order that favors the core industrial countries.<sup>1</sup> We explore what has been attained in certain countries, and how and why social-democratic experiments have succeeded, in the hope that this exploration will suggest possibilities for similar achievements elsewhere. Our findings derive primarily from a comparative analysis of four exemplary cases: Kerala (India), Costa Rica, Mauritius, and Chile since 1990. In the global south, where poverty, inequality, illiteracy, hunger, and authoritarian and corrupt governance are widespread, these four cases stand out in contrast.

We arrive at two significant findings. First, the four exemplars cannot be dismissed as inexplicable, 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,

<sup>1</sup> For a similar viewpoint, refer to Evans 2005; Glatzer and Rueschemeyer 2005.

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global neoliberalism (construed as pressures to liberalize markets, reform states, and open economies to cross-border flows of goods, services, and capital). The four exemplars have preserved or even improved their social achievements since neoliberalism emerged hegemonic in the 1980s. Certain social-democratic policies and practices – including the actions of a democratic developmental state – can enhance an economy’s global competitiveness.

### Context of the study

Both the shortcomings of neoliberal reform and the renewed search for a more desirable alternative warrant a rethinking of the nature and viability of social-democratic models. On the one hand, market-oriented reforms have produced disappointing, and sometimes destructive, results in the global south. On the other hand, the last decade has witnessed a resurgence of interest in more egalitarian and dynamic alternatives to the Washington, or more comprehensive “Post-Washington,” Consensus.<sup>2</sup> Implicitly or explicitly, social-democratic principles are central to certain of these alternative visions.

The shortcomings of market reform are widely acknowledged. That neoliberalism’s triumph would usher in a more peaceful and prosperous world – an “end of history” – was a popular post-Cold War view. According to this position, the collapse of state socialism in the 1980s allowed all countries to adopt a market orientation and open economies. Free global markets, it was believed, facilitated the free movement of ideas as well as products, thereby opening closed states to the outside world. Free trade and investment, furthermore, could foster the prosperity necessary to defeat poverty and defuse conflicts. Democratization and the development of civil societies would, in time, accompany economic liberalism. All these changes would facilitate a more peaceful world. This optimistic scenario is not being realized, however.

First, even World Bank economists have recently conceded that market reform has not yet delivered on its economic promise. William Easterly, in an article tellingly entitled “The Lost Decades,” shows that many developing countries have stagnated despite their adoption of market-friendly reforms. He cites one statistic that dramatically illustrates the lack of success: whereas the median per capita income growth in developing countries in the era of state interventionism (1960–1979) reached

<sup>2</sup> The original statement of the Washington Consensus is Williamson 1990. On the controversy surrounding the Washington Consensus and the alleged need to “reform the reforms” in a Post-Washington Consensus, see Santiso 2004.

2.5 percent, it was a disastrous 0.0 percent in 1980–1999 (Easterly 2001, 135). Branko Milanovic (2003) similarly accepts that the development record of 1960–1978 is superior on all measures to that of 1978–1998, noting that the best performers in the second period – for example China and India – did not follow mainstream free-market policies. Disillusionment with the Washington Consensus is especially widespread in Latin America, where “the initial enthusiasm . . . was not matched by results” (Ortiz 2003, 14). Finally, former World Bank Chief Economist Joseph Stiglitz’s jeremiads (2002) against “market fundamentalism” in the 1990s are well known. As Milanovic concludes, “something is clearly wrong” (2003, 679).

Second, scholars studying neoliberal reform have identified several destructive trends associated with reform policies:

- High and growing inequalities have accompanied market liberalization.<sup>3</sup> World income inequality has likely been rising, a trend that is incontrovertible if China is removed from the calculation. Within countries, neoliberal policies have also been associated with growing inequality and poverty in most cases. Does growing inequality matter, if the proportion of the global population living in destitution falls? Yes, responds Robert Wade: “Inequality above a moderate level creates a kind of society that even crusty conservatives hate to live in, unsafe and unpleasant,” with higher crime and violence and lower levels of interpersonal trust (Wade 2004a, 582).
- Democracy itself is diluted and hollowed out. The scope of democratic decision making shrivels when national governments, through international agreements, surrender their power to regulate in the public interest in such areas as trade, financial flows, investment, and health and environmental standards, and when global financial markets effectively punish governments that deviate from conservative monetary, fiscal, and even social policies. In addition, growing social inequality and atomization lead to lower and less-effective popular participation, as cynicism regarding democratic institutions grows (see chapter 2).
- Market liberalization generates conditions in developing countries that are conducive to instability and conflict. Virtually the entire human population has been drawn into a growing dependence on markets. Where these markets are only lightly regulated, they subject people to rapid and sometimes devastating changes in fortune. Distributional shifts, new forms of economic insecurity, and external shocks demand

<sup>3</sup> The literature on income distribution is voluminous and contentious, with different methodologies producing different findings. The following generalizations are supported by these careful studies: Berry and Serieux 2004; Cornia, Addison, and Kushi 2004; Wade 2004a; and Wade 2004b.

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strong, coherent states to devise adaptive economic strategies, mediate domestic distributional disputes, and mount social protection. Yet these new tensions, combined with externally influenced austerity programs and anti-state ideologies, challenge the legitimacy and coherence of already weak states. The rise in grievances, coupled with increasingly ineffective and unpopular regimes, provides an opening for violent protest movements drawing on religious fundamentalism, ethnic chauvinism, or charismatic populism.<sup>4</sup>

Social-democratic regimes, in principle, provide an antidote to these destructive tendencies. Not only can their inclusive and well-organized democratic institutions mediate distributional conflicts, but economic security, social cohesion, and equality are also enhanced through such redistributive mechanisms as land reform, job creation, progressive taxation, labor-market regulation, social insurance, and welfare provision. The efficacy of social-democratic regimes, in Europe and elsewhere, explains their resurgent popularity in current debates about development alternatives to neoliberal orthodoxy.

Prominent among these alternatives is neostructuralism. In Latin America, with its long tradition of social-democratic movements (Vellinga 1993), the 1990s saw the elaboration of this policy model by economists associated with the Economic Commission for Latin America and the Caribbean (ECLAC). Neostructuralism, the successor to a structuralist approach whose origins lie in the 1950s, is essentially a technocratic version of social democracy.<sup>5</sup> Neostructuralists claim that their approach can avoid the pitfalls of both protectionist import-substituting industrial strategy and the current free-market doctrine. Neostructuralism, like its predecessor, stresses the historical specificity of the situation of developing countries, in particular the historically derived structural constraints on economic decision making and development. While neostructuralists agree with neoliberals on the centrality of markets and the maintenance of macroeconomic stability, they differ in including equity, as well as growth, as the goals of economic policy. These dual goals require a strong role for the state in economic life as service-provider, manager, and regulator (but not owner). Governments should intervene to promote land redistribution (where warranted), progressive tax reform, technological development, accessible education and health care, a skilled labor force, export markets, and social insurance (Green 1996, 109–22).

Neostructuralism, however, lacks a political analysis. Its economic focus ignores the empowerment of subordinate classes that is the means

<sup>4</sup> For an elaboration of this argument, see Sandbrook and Romano 2004.

<sup>5</sup> For summaries and assessments of neostructuralism, see Lustig 1991, Sunkel 1993, Green 1996, and Gwynne and Kay 2000.

(and also an end) of equitable development. It is unclear how a growth-with-equity strategy can prevail in the face of entrenched and intransigent power elites. This volume, in contrast, emphasizes the politics of experiments in equitable and democratic development.

The recent rise to power of the democratic left in Latin America has further stimulated debates about the viability of egalitarian alternatives. Popular antipathy towards neoliberal policies brought left-of-center governments to office in seven countries that together account for more than three-quarters of the region's population: Brazil (Luiz Inácio "Lula" da Silva), Argentina (Néstor Kirchner), Uruguay (Tabaré Vázquez and the *Frente Amplio*), Ecuador (Lucio Gutiérrez in the early years of his presidency, 2002–2004), Chile (Ricardo Lagos and Michelle Bachelet), Bolivia (Evo Morales), and, less democratically, Venezuela (Hugo Chávez). What united these leaders was not socialist doctrine but a common, if vague, view that neoliberal reform had failed and should be replaced with a development model emphasizing egalitarian policies, social welfare, and a more central role for the state in economic life. With the exception of the radical populist Chávez, all the new leaders might be described as pragmatic social democrats.

The ascent of "Lula" to the Brazilian presidency in October 2002 (with more than 60 percent of the vote) has particularly excited interest in social-democratic approaches. Lula, in his fourth run for president, succeeded the two-time president and professed social democrat, Fernando Henrique Cardoso. The latter's efforts to implement social reforms had been heavily constrained both by domestic power structures – clientelistic politics and the powerful business elite – and by the country's dependence on international financial markets as a result of its huge debt (Smith and Messari 1998). Lula, whose Workers Party (PT) was the largest party in the legislature in 2002, promised a deepening of democracy and redistribution (including land reform) together with renewed growth within a market economy. The PT-led coalition assumed power with impressive credentials for egalitarian reform: it had, after all, already instituted measures to involve ordinary citizens in governmental decision making in the Brazilian states and municipalities it controlled, most famously in the form of participatory budgeting.

Yet Lula, like Cardoso, was constrained in achieving redistributive measures at the national level, especially by a recession in 2003, which reinforced the imperative of attracting private investment and retaining the International Monetary Fund's (IMF) support. Hence, his early response was to combine an orthodox monetary and fiscal policy with limited improvements in pensions and welfare payments and little in the way of land reform. Achieving social reform in a country that is both highly

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dependent on foreign investment and immensely inegalitarian<sup>6</sup> is fraught with difficulties; nonetheless, we shall contend later that the Workers Party is changing the face of Brazilian politics.

Another locus of social-democratic rethinking is the groups opposed to what they term neoliberal globalization. Actually, the “anti-globalization movement” (as branded by the media) juggles two conflicting visions or development alternatives to neoliberalism. A radical tendency envisages the transformation of global capitalism. One prominent version of this tendency advocates the formation of decentralized, participatory, and ecologically sustainable communities that trade mainly within the community or the region. The limited scale and self-reliance of such a model is thought to enhance solidarity and participatory democracy, as well as environmental sustainability. However, its proponents’ reluctance to sketch a plausible strategy of transformation renders this approach utopian.<sup>7</sup>

The alternative, reformist tendency is congruent with social-democratic pragmatism, though its advocates in the global justice movement rarely employ that term. The reformists propose remedies to the destructive tendencies of global capitalism at the national and international level. That the strategy is implicitly social-democratic is clear from its advocates’ brief statements of principle. For example, Walden Bello, a prominent figure in the global justice movement and head of the Third World Network, describes the essence of his approach as “a strategy that consciously subordinates the logic of the market and the pursuit of cost efficiency to the values of security, equity, and social solidarity” (Bello 2003, 286). Proposed reforms of the rules governing the global economy, international governance, and new forms of global taxation add up to what may be termed a “social-democratic globalization” (Sandbrook 2003).

However, the dominance of such global institutions as the IMF, World Bank, and WTO (World Trade Organization) by proponents of neoliberal globalization has led globalist reformers to defend national sovereignty as a vehicle for attaining social justice. Not only will effective social democracy at the national level yield security and equity for working people domestically, but such nationally based governments will demand that human rights and social justice apply to global markets as well. As one observer concludes, “the global opposition must pursue a common global program for working people that reinforces their national struggles for

<sup>6</sup> In Brazil, the top 10 percent of the population earns half the nation’s income; 1.7 percent of landowners own nearly half of the arable land (*New York Times Magazine* [June 27, 2004], 33).

<sup>7</sup> This utopian model is assessed in chapter 9.

economic and social equity. Such a program would support national democratic movements and leaders who understand that national social contracts cannot be maintained in a global market that lacks one of its own” (Faux 2004, 49).

Hence, this volume’s rethinking of the sustainability and promise of social-democratic approaches derives its significance from both the disappointing record of neoliberalism and a resurgence of interest in egalitarian, democratic, and nationally based alternatives. In principle, social-democratic models are more deeply democratic, proactive, security-enhancing, and inclusive than the orthodox market-oriented model. A brief review of our social-democratic cases indicates that practice is not too distant from principle.

### Records of achievement

We selected our cases – Kerala, Costa Rica, Mauritius, and Chile since 1990 – on the grounds of both their celebrated status as social-democratic pioneers and the diversity of their approaches. Many other relevant cases in the global periphery saw their social-democratic path 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). Some of these earlier failed cases, such as Uruguay, have recently resumed their social-democratic path; meanwhile, in other countries, prominently Taiwan and South Korea, democratization has forged some social-democratic features such as redistributive welfare states. Few countries, however, have experienced as lengthy a history of social democracy as the four on which we concentrate.

Although these cases diverge in their circumstances and historical trajectories, they resemble each other in their exemplary socioeconomic development. Each has achieved an exceptional record in comparison to others in its region or country: Kerala in relation to other Indian states, Costa Rica in Central America, Chile in Latin America, and Mauritius in Africa. Chapters 3 to 6 specify these individual achievements. For now, this summary of some of their common successes will suffice:

- They all provide primary health care, including clean drinking water, adequate sanitation, nutrition programs, comprehensive immunization, and access to basic medical services. Not surprisingly, the life expectancy in all cases is over seventy years (compared to an average of sixty-four years for all middle- and low-income countries).
- They have all made considerable progress in education, with (at a minimum) nearly universal access to primary schools and an adult literacy

Table 1.1 *Profiles of the selected cases*

	population (millions) 2001	urban population (%) 1999	GDI per capita 2001 (\$US)		GDP growth (% per annum)		Economic structure, 2001 (value added as % of GDP)		
			nominal	PPP	1980–1990	1990–1999	agriculture	industry	services
Chile	15	85	4590	8840	4.2	7.2	8	34	57
Costa Rica	4	48	4060	9260	3.0	4.1	11	37	53
Mauritius	1.2	41	3830	9860	6.0	5.2	6	31	63
Kerala	32	26	304	—	2.2	4.4	29	12	59

Sources: World Bank, *World Development Report, 2003, 2001*; World Bank, *World Development Indicators Databank*, August 2003; India, Census Bureau, National Sample Survey 2002; <http://www.indiabudget.nic/es2002-03/esmain.htm>.



rate of over 90 percent (compared to an average 75 percent for all middle- and low-income countries).

- They have all dramatically reduced the incidence of poverty, even when their per capita incomes were low or remain low – in low-income Kerala, for instance, only 12 percent of the population falls below the poverty line (compared to 26 percent for India as a whole).
- They have all mounted advanced social-security systems, relative to other countries at the same economic levels, which include protection for all or most people against at least old age and disability (though Chile's bifurcated schemes favor the well-off).
- They all feature consolidated democracies with robust civil societies – a rarity in developing countries – though a defeated military regime not only imposed constitutional constraints on Chile's democracy but also vitiated popular organizations following the coup in 1973.

Clearly, though many problems remain, these societies have made remarkable progress in comparative terms.

This progress, moreover, occurred under diverse demographic, economic, cultural, and political conditions (see Table 1.1). Our cases vary enormously in population, ranging from 32 million in Kerala to only 1.2 million in the island state of Mauritius. They also diverge in the distribution of this population, with Chile a heavily urbanized society, Kerala still largely rural, and Mauritius and Costa Rica clustered between these two extremes. Additionally, the four cases manifest major economic differences, though all are capitalist and have experienced growth in per capita incomes that ranges from average to exceptional.<sup>8</sup> Chile, for example, is an upper-middle-income developing country, whose per capita income is fifteen times that of low-income Kerala. Costa Rica and Mauritius join Chile in the upper-middle-income category. We also find a wide variation in economic structure: whereas industry accounts for more than 30 percent of GDP in Chile, Costa Rica, and Mauritius, Kerala retains a large peasant sector. However, agriculture remains an important generator of export earnings in the remaining three countries.

In terms of cultural composition, our cases fall into two groups. Costa Rica and Chile are quite homogeneous, with a Catholic tradition, a population mainly of European origins, and only a small indigenous or other minority population.<sup>9</sup> Mauritius and Kerala, in contrast, host highly heterogeneous populations. Mauritian diversity features overlapping religious, ethnic, and class cleavages: even the Hindu majority (51 percent)

<sup>8</sup> Yet Chile, Costa Rica, and Mauritius have also experienced economic reversals and, as a consequence, structural adjustment programs in the 1970s and/or 1980s.

<sup>9</sup> Costa Rica is also home to small minorities of citizens of African and Chinese origin.

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is divided by caste and regional origin. Kerala's population is predominantly Hindu, but significant Muslim and Christian minorities exist. In contrast with other states in India, the Hindus in Kerala have seen their caste divisions diminish, though not disappear. Politically, too, the cases are diverse. Kerala is a state within a federal system – albeit a state with considerable control over social programs – while the others are independent countries. Although all feature democratic governance, democracy in both Chile and Costa Rica has a checkered history that began in the nineteenth century. In contrast, Kerala and Mauritius are more recent offspring of colonial empires, though democracy in both these countries, too, has early origins.

This brief review suggests that even initially poor, heterogeneous, and agrarian-based former colonies can achieve rapid social progress. But in what sense do such diverse cases constitute a general type – social democracy?

### **Social democracy in the core**

What characterizes a social-democratic route is not self-evident. The term has meant different things to different people. Some political parties that would never define themselves as social-democratic (such as the Communist Party of India [Marxist]) pursue what look like social-democratic policies, while certain self-identified social-democratic parties (such as New Zealand's Labour Party) have undertaken typically neoliberal free-market programs. Since social democracy was initially a European movement, a brief review of its development in that continent will bring this ambiguous phenomenon into sharper focus.

Social-democratic thinking rose to prominence in the early twentieth century as some socialists sought to adapt Marxism to what they saw as the new realities of the age.<sup>10</sup> Eduard Bernstein, together with such other revisionists as Jean Jaurès, Benedetto Croce, the Austro-Marxists, and the Swedish Social Democrats, rejected the economic and deterministic interpretation of Marxism that predominated after the death of Marx in 1883. Popularized in particular by Friedrich Engels, Karl Kautsky, and G. V. Plekhanov, this “orthodox” view treated Marxism as a science of societal evolution. History, from this viewpoint, followed an “inevitable, lawlike progression that leaves little room for conscious human action” (Berman 2003, 117). Bernstein rejected the implicit passivity of this interpretation. In *Evolutionary Socialism*, originally published in German in 1899 and in English in 1909 (Bernstein 1961), he contended that

<sup>10</sup> This interpretation draws heavily on Berman 2003.