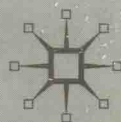


# THE PROMISE OF THE THIRD WAY

Globalization and Social Justice

Otto Newman and Richard de Zoysa



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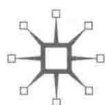
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# Introduction

The Third Way in Britain is currently in the doldrums, battered by critics from both left and right and disappointing its supporters by its inability to translate its ideas into a coherent programme of reform understandable to the wider electorate. Acclaim follows blame and self-recrimination, not least in the revealing leaks seeping out of government indicating unease and uncertainty among the leadership of the Party in finding it difficult to convey its core message. And all this at a time when commanding a 179-seat majority in the 1997 election and still polling positively among the wider electorate.

The roots of the Third Way lay in a post-Keynesian intellectual climate and more specifically in the formative years surrounding the economic recession of the early 1990s, at a time when the left had faced many forlorn years in opposition. Left-of-centre leaders, not just in the United Kingdom but also in Europe, needed to regain electoral respectability by abandoning outworn socialist rhetoric, and offering voters policies that would command widespread support among an electorate vastly different from when many of them had last held power. An early indicator of the intellectual shift this implied was witnessed by the reform struggles occurring within the Democratic Party in the USA in the late 1980s, following the success of Ronald Reagan in targeting working-class support. The Democratic Leadership Council wanted modernization of the party programme to make it more appealing to a fast growing suburban constituency. New Labour, in particular, watched these developments with interest.

With an unequivocal call for reform, the Third Way promises to modernize social democracy, currently on the defensive in the light of neo-conservative criticisms that portray its past spending programmes as inflationary and premised on high penal rates of tax, destructive of enterprise and individual initiative. The Third Way eschews the traditional leftist approach to pump-priming the public sector and accepts much, though by no means all, of the preceding Conservative years of reform, re-establishing the primacy of the market. It is pro-business, positive towards free trade and globalization, while cautious in making *a priori* commitments to its traditional constituency. The Third Way embraces the idea of modernizing the public sector by advancing new forms of public-private cooperation and seeking private sector inputs

where necessary. The state will monitor and set various performance criteria to ensure high standards are obtained. However, past inadequacies revealed by an over-reliance on private sector mechanisms exclusively (especially in run-down inner cities and older industrial areas lacking adequate investment), will be tackled by New Deal initiatives focused on combating social exclusion, at a time when at least one in five children remain mired in poverty.

Much has been inspired by the example of the USA. The flexibility of its labour market in generating employment and its success in developing innovative technology has built a lauded 'New Economy', where readily available venture capital and an absence of restrictive red-tape are seen as vital to new company formation and success. Central to New Labour's programme is a remodelling of the welfare state by targeting funding and emphasizing the rights people enjoy being commensurate with their responsibilities to their families and wider society. Much remains uncertain, and many see in the Third Way an abandonment of Labour's traditional concern with social justice and universal citizenship rights, while conceding far too much to powerful conservative interests in the media and business. New Labour responds by pointing to the flourishing service sector economy, made secure by a combination of economic prudence and macroeconomic stability, and the need to keep on board its new-found middle-class support. The recourse to private insurance is beyond the means of many, so voting Labour is a way of hastening improvements in public sector provision – in state schools where their children are educated and in NHS hospitals their health care is dependent upon. The underpinning to these changes is not just a policy conversion but also marks a new intellectual terrain mapped by think tanks and academic advisers.

While for the moment domestic debate seems stilled, internationally many newly elected premiers or rivals for office of varying political persuasions claim allegiance to Third Way values, and see in Tony Blair an inspirational figure. Thus a report in *The Independent* of 4 July 2000 was headed 'Mongolian ex-communists win a landslide for their "Third Way"', while a few weeks later the same paper reported that Socialists pin their hopes on a 'Spanish Tony Blair'. Indeed supporters of some variety of a Third Way or new progressive politics extend beyond the confines of Europe and the USA to include the presidents of Chile, Argentina and Brazil, while Thabo Mbeki, the newly elected leader of South Africa also claims to be a follower.

What gives credence to the growing chorus of critical commentary? The range of opposition to New Labour and its Third Way ranges from

traditional core supporters both inside and outside parliament who see it as something of a 'sell-out' of key socialist values, to those who argue more dispassionately that the project lacks a coherent political economy since abandoning Keynesianism. Furthermore, its support for globalization and modernization are in crucial respects naïve and ill-informed as to the true nature of modern corporate capitalism. On the right the critique is equally dismissive, viewing it as a covert means to 'raise taxes by stealth', while imposing further regulatory controls on private capital which has demonstrated its munificence by creating, once again, near full employment. Uniting both critiques is the charge that New Labour is over-dependent on spin, focus groups and direct democracy, and is by-passing the traditional representative function of parliament with its right to scrutinize the executive. Power is based on a 'command' model, and is too over-centralized within an emerging presidential style of leadership lacking adequate countervailing checks and balances.

There is, it must be admitted, some truth in these allegations. But there is a distinct promise to the Third Way: a sense of it trying to grapple with a very different emergent social structure, where the old certainties of class formation and hierarchy have long gone in a far more socially fluid landscape, characterized by high levels of female employment, differing family structures and new questions posed by a multicultural society – all transformations that need addressing. A new political repositioning towards the problems and opportunities posed by globalization is becoming evident, be it in developing new international regulatory controls with other similarly minded states, or in dealing with international non-governmental organizations (NGOs) and their pressures to alleviate global concerns. New Labour is decidedly not 'Thatcherism in trousers'. The commitment to the House of Lords reform has seen the elimination of the hereditary principle. Devolution has altered the balance of power between Westminster and the constituent national units that make up the UK. The introduction of the minimum wage and the New Deal offering support to unemployed and underprivileged youngsters and now extending to older workers is significant. Finally, the massive boost to public services awarded under the Comprehensive Spending Review in the Summer of 2000, is a vote of confidence in modernizing and improving the public delivery of services, marking a genuine difference of approach from that of a Conservative administration. New Labour is renewing its pledge to a genuine form of equality of opportunity by a socially inclusive programme of action. The contention that political parties offer little choice is facile.

However, what continues to worry supporters of the Third Way's alternative route to political management, is the timidity and apparent lack of a core conviction to the whole project, thereby diminishing its prospects of success. Thus, the House of Lords reform has produced the stupefying spectacle of a non-elected second chamber countervailing the will of the elected Commons, yet at the same time providing one of the few effective checks on government itself. A nagging feeling persists that government only introduces some reform retroactively not positively. The adoption of the minimum wage was set at a very low level; the introduction of a Freedom of Information Act is lacking teeth; a policy of 'tough on crime', rather than its causes, has taken precedence, while adopting the European Social Charter into English law appears as grudgingly half-hearted as ever. The adherence to tight public spending limits, inherited from the previous administration, has retained the confidence of the City that Labour would be prudent in its custody of the nation's finances, and has been given further reinforcement by granting operational control over interest rates to the now independent Bank of England. However, this resulted in an initial squeeze on public finances, demoralizing many working within the public sector, while promising more than it could deliver, thus dashing expectations of New Labour's capacity to honour its pledges. Questions are asked whether boosting public spending so dramatically in the short term (though much constitutes a catching-up exercise), can be coupled with adequate promises to modernize and improve existing services, thereby re-legitimizing claims that government can work satisfactorily. New thinking as to what exactly comprises modernization, though spelt out in various publications, indicates little by way of concrete results to date. Similarly on Europe, the vital debate on joining the euro, sees government hesitant, vacillating and disunited, thereby departing from its promise to secure a leading European role.

Beyond the United Kingdom, the influence of Third Way ideas was apparent in Germany with the Schröder government and even earlier still with Bill Clinton, the latter visibly under the spell of the Democratic Leadership Council and its proposal to distance the Democrats from their more traditional 'tax and spend' programmes. Clinton needed to connect to newer, more suburban voting constituencies, previously put off by the traditional sectional appeals of the party. This resulted, prior to the 1996 presidential election, in a policy known as triangulation – a defence of existing Social Security and Medicare programmes from Republican encroachment by depicting them as tax-cutting zealots, while at the same time promising



welfare reform and avoiding new commitments to big government programmes. The DLC philosophy of opportunity, responsibility and community implied an enabling role for government based on balancing the budget and was heralded as a new form of progressive politics. It certainly helped secure the president's re-election, along with his stewardship of a booming US economy now benefiting from globalization. This occurred despite the evident disapproval of many ordinary working families, worried by the negative consequences they attributed to more open free trade for downsizing their jobs plus significant opposition from one key traditional ally, namely the AFL-CIO labour organization.

In Germany, the *Neue Mitte* has similarly been ambivalently received. Schröder has cut taxes significantly and deregulated, while promising to secure pension rights for workers in a careful balancing act as the economy opens up to the rigours of Anglo-Saxon shareholding. In France meanwhile, the Jospin government remains deeply suspicious of this modernizing agenda as it seems so overtly corporate friendly, and so the need to temper the destructive potential of market activity is pronounced widely. Yet quietly, the privatizing of industry has proceeded at a rate beyond that of its liberal-conservative predecessors. On the other hand, the French government has experimented with an innovative 35-hour working week, despite big business opposition. Though fewer new jobs have been generated than once were anticipated, it has unintentionally boosted employee flexibility – another key Third Way mantra – to maintain international competitiveness.

All leaders now subscribe to a new brand of social democracy, supportive of free trade and globalization, yet seek in their different ways to moderate the harsher effects of the unfettered market. All are cost conscious, mindful of the need to keep government taxation low and subject to internal and external competitive constraints. The emphasis is on pragmatism, progressivism and modernization, while for many European leaders reform is not viewed simply as a synonym for deregulation and cutting the role of government, but rather implies a commitment to workers' rights, and emphatically is not a race to the bottom in order to remain competitive.

This book charts the development, critique and possible revitalization of the Third Way as a programme of modernization and as a political movement in the United Kingdom, USA and Europe. The text is organized in the following way: Part I – The Background to the Third Way – develops the political, social and economic context out of

which this new form of revisionism emerged. The first chapter explores the emergence of capitalism and socialism as rival ideological protagonists. Chapter 2 examines the specific development of social democracy from within the socialist tradition, including its post-war triumphs and slow retreat from the 1970s, when its underlying Keynesian assumptions were undermined and its performance questioned by the advent of globalization. Chapter 3 – *The End of Socialism?* – explores the regime and ideological crisis of Gorbachev's Soviet Union prior to investigating the problems of the 'transition' – the rebuilding of a market system and securing democratic legitimacy in Russia. Parallel developments in central and eastern Europe, both preceding and following the fall of the Berlin Wall are assessed, including analysis of the possibility of reviving socialism today.

In Part II – *The Post-Cold War Era* – the initial focus in Chapter 4 is given to why the market economy has been so successful and triumphant, and to the air of invincibility it was able to project before examining its limitations. Chapter 5 sets out the Third Way alternative, in terms of its key ideas and policies, by explicating its intellectual origins and identifying the influence its ideas and analysis have generated within Europe. Chapter 6 offers a critical review of the Third Way, initially from a more sympathetic moderate/centrist position then extending to the New Right/ conservative disposition, before finally examining Left adversarial rejection of its assumptions and practice.

Part III – *New Times: the Way Ahead* – starts in Chapter 7 by focusing on Labour's flagship Third Way programme – the New Deal, with its commitment to ending social exclusion, while also giving attention to the early influential ideas of Communitarianism and Stakeholding as possible alternative models. In Chapter 8, the divisions in Europe, the emergence of the euro and Britain's uneasy relationship with its partners are explored, before moving on to outline a possible case for Third Way convergence. Chapter 9 switches direction by examining political developments across the Atlantic, especially the influence of the Democratic Leadership Council and its Third Way repositioning of the Democratic Party. The political heritage bequeathed by President Clinton is assessed before addressing the issues and ideas infusing the run-up to the presidential election and the wider influence of an American Third Way. Finally in Chapter 10 – *The Promise of the Third Way* – an overview is offered of the critical commentary and internal contradictions of the Third Way, including the ever-present pull to the right, before arguing the case for Third Way cooperation as a means to modernizing European social democracy when set against the serious

challenge of globalization. US style triangulation is rejected as insufficient in scope and philosophy, so new initiatives are necessary to ensure that the effectiveness and promise of the Third Way are realized.

In opening up the Third Way to critical scrutiny and locating it within its intellectual and contemporary setting, the text has been designed to interest the informed general reader and equally to engage the specialist concerned about the future direction of social democracy and the Third Way in particular. What emerges out of such a debate has the capacity to affect us all for good or ill. Our hope is that we have offered both a guide and some positive suggestions for future deliberation amongst our readership.

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## Part I

# The Background to the Third Way



# 1

## Capitalism and Socialism

For the past one and a half centuries, capitalism and socialism have been the principal global protagonists. Capitalism came first. Constituting the motive force behind industrialization and modernization, its role was supreme. The call for freedom (and equality), first enunciated during the English Civil War against monarchical absolutism and later made memorably evident by the French Revolution, served as common sources of ideological inspiration. For Britain – well to the forefront for the first hundred years – Adam Smith's *The Wealth of Nations*, together with the theories of Edmund Burke, John Stuart Mill and Jeremy Bentham set the framework. Divergent as these were in their basic philosophy, the opportunities and freedom from tyranny that the capitalist system provided, reflected the best possible vision for a secure and happy future life.

Socialism traces its ideological roots to the earliest forms of social existence when, it alleges, communal life was solidaristic and untainted by competitive strife. Early philosophical traces are discernible in Plato's *Republic*. The guardians or philosopher kings, hold no property, nor do they live in family units. They selflessly rule in the interests of the wider community. At the time of the Peasants' Revolt in England, led by the redoubtable John Ball in 1381, the sentiments expressed were captured in the witticism of 'When Adam delved and Eve span who was then the gentleman?', implying a society where class division was absent. Thomas More's *Utopia* dreamt of a classless utopia, where the organized societal conspiracy of the rich against the poor would finally be ended. The Levellers and Diggers of the English Civil War threatened the sanctity of private property, but were quickly repudiated by Cromwell's New Model Army. More recently, early criticism of nineteenth-century *laissez-faire* market capitalism and disappoint-

ment with the failure of the French Revolution to link political with economic equality led to widespread critique. In England the idealistic communitarianism of Robert Owen echoed similar developments associated with Fourier in France. Until 1848, the wave of popular uprising that surfaced in most western states as yet hardly constituted a political movement, being more a collection of disparate theories. After 1848, a practical movement whereby socialist ideas were transformed into action, prominently reflected the values of dialectic materialism that Karl Marx and his followers had widely proclaimed.

Capitalism, by its very nature, brought in its wake social inequality, exploitation and immiseration. Power – not only material, but equally political, social and cultural – was passing from the landed interest into the hands of the bourgeoisie, who made use of their position to enhance class privilege and personal wealth, while inflicting suffering and alienation on the majority. That the system, at the same time, was wasteful and inefficient would, it was claimed, lead to its eventual demise. Though a necessary stepping stone towards the threshold of material affluence, capitalism was destined to make way for the socialist future where injustice, oppression and exploitation would no longer reign. Communism, with its total removal of the cursed evil of private property and the money economy, was perceived as the ultimate outcome amongst more radical circles. Socialism, acknowledged as a legitimate interim state of transition, would serve as a useful staging post. But only the withering away of the oppressive state apparatus to make way for a process of mere administration would ensure that material scarcity, now thanks to capitalism's bounty, would be finally overcome resulting in peace and plenty for all.

Capitalism and socialism have stood shoulder to shoulder in their historic conflict to become the standard-bearers of the good life. Wherever one established a foothold, the other stood close behind. Politically, industrially and ideologically in their struggle for the allegiance of the majority throughout all parts of the globe, they have competed, denouncing each other while insisting that only they, and they alone, held the key to the good life. The apogee of the struggle arose in the aftermath of the Second World War. The half-century of the Cold War represented an era of intensified rivalry and militant confrontation. For a while, the momentum of the march of time seemed decidedly to have moved in a leftward direction. Radiating from Soviet Russia, and soon after, China, while taking root throughout the developing world, communism was gaining unquestioned ascendancy. In South-east Asia, the Gulf region, Africa, South America and the



Caribbean, successive radical left-wing regimes, implacably opposed to the West, were gaining the upper hand. The West championed above all by the USA, as the pre-eminent capitalist power and leader of NATO, was not beyond geopolitical setback. America's defeat in the Vietnam war, proved a serious ideological blow to its policy of containment, although one quickly moderated by growing *détente* with China. Moreover, criticism of the Vietnam war within the US fed into massive student protest and radicalism. Government economic policy became destabilized through growing inflationary pressures arising from the costs of the conflict, while the Bretton Woods system and dollar convertibility were aborted.

The contagion spread and inspired youth protest in Europe against the managerial state and its corporate supporters. Well into the late 1960s in France and Italy nearly one-third of the electorate regularly supported the communist ticket, allying themselves with the Soviet cause. Generally, in Western societies (the USA being the partial exception), the reality was social democracy. From Britain, France and the Netherlands to Italy, Spain, Scandinavia and the Austrian Republic left-oriented parties publicly committed to a programme of progressive socialization and containment of working-class demands, occupied office most of the time. Capitalism, overtly in most parts of the world had its back to the wall. In the eyes of many observers from all schools of thought, its era of dominance was close to an end as it was subject to ever more state management. New experiments in state corporatism involving both capital and labour as equal partners with state regulation of wages and prices seemed to offer a new panacea during the 1970s. In reality they were more a desperate form of crisis management, as inflation and a lack of growth ended the long post-war boom, and placed additional pressures on maintaining extensive welfare state commitments within a large and growing public sector.

The early 1980s heralded a period of market resurgence with a restatement of capitalist principles in the wake of the failed Keynesian panacea. Stagflation was to be soundly repudiated by the Thatcher/Reagan critique of post-war statism and management demand, replacing it with both monetarism and supply-side economics. A thoroughgoing dismantling of the state-controlled public sector followed. Then, unexpectedly in utter defiance of the informed consensus, came the fateful events of 1989. The year when the Berlin Wall crumbled, communism appeared bankrupt and discredited once and for all, and the Soviet Empire dissolved into a multiplicity of separate unstable units. Dissidents came to the fore, and Marxism, in all its various guises, was