Globalization and the Limits of Democratic Choice Social Democracy and the Rise of Political Cartelization

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Much contemporary analysis of the limits of social democracy in Europe focuses upon the role of external factors (Cerny 1995, Moses 1997). In particular, the idea that globalization has »changed everything« has gained a great deal of currency. Specifically, it is held by both academics and politicians that external global constraints, capital account openness, increased trade dependence etc., have narrowed policy options for social democratic governments to such an extent that left parties are no longer able to govern as left parties (Scharpf 1991, Blair and Schroeder 1998). Instead, a new supply-side social democracy based around skill formation is seen as the only way forward for progressive politics (Giddens 1998).

Another development of note in contemporary Europe is the rise of neo-populist movements and right-wing fringe parties, some of which have either gained power or have come close to doing so. Le Pen's performance in the last French presidential elections, the emergence and consolidation of Haider's Freedom party in Austria; and the explosion and subsequent implosion of the Fortuyn list in Holland are but the most obvious examples. Interestingly, these two seemingly discrete phenomena may have much in common.

Those European social democratic parties that regained power in the 1990s have in many cases failed to produce traditional social democratic policies. Instead, with explicit reference to the external constraints of globalization, social democratic politicians have told their constituents that the policies of the past have no place in the present. Yet there is good. This »globalization« is nothing to be feared; rather, it should be embraced. As a result, welfare reforms long associated with the right are actively promoted by social democrats while »job-security« has given way to the »life-long learning« needed to flexibilize labor markets and compete in the global economy. Unfortunately, those most at risk in this new world of global competition and flexible labor markets are those concentrated at the lower end of the income scale; and it is precisely among this part of the voting population, among the social democratic core, that we see declining turnout and increasing voter volatility (Rodrik 1997, Hopkin 2002).

A powerful explanation of how these phenomena are linked was given nearly sixty years ago by Karl Polanyi (Polanyi 1944). Looking at the nineteenth century Polanyi argued that the attempt to delegate to the market ever greater areas of social responsibility engenders an intolerable uncertainty in the life of labor, particularly those most exposed to unemployment and declining wages through competition. Moreover, as the market expands, the more fragile the social order as a whole becomes. As institutions of social protection are abandoned in the name of efficiency and competitiveness, so those most affected by market dislocations and uncertainties will turn to the state to protect them. This was Polanyi's famous »Great Transformation«. The reaction of labor to the vagaries of market capitalism was to invent the state as protector (Polanyi 1944, Blyth 2002).

The embrace of a rhetoric of globalization by social democrats enabled them to survive the 1980s by cartelizing the policy space available to them. By doing so they successfully competed with the right and lowered their own costs of defeat, but at the cost of narrowing the choices available to the electorate.

The parallel between Europe today and what Polanyi described is striking. Similar to what we find today, governing parties in Europe in the 1920s and 1930s told their constituents that »there was no alternative«; that markets forces were a »fact« that demanded discipline and adjustment, that we »cannot spend our way to prosperity«, and that as much as we would like to cushion the blow, in a world of open capital flows and global markets, there is nothing government can really do. But European mass publics in the 1930s surprised their leaders by doing something unexpected. They flocked to those who said that they could protect them from the dislocations of the market. When their elected representatives told them that they could not protect them, those constituents went elsewhere, towards communism and fascism.

The nightmare scenario associated with this diagnosis is that Europe stands poised to repeat its past – albeit without the communist alternative. Like the 1920s and 1930s, the left is in power but governs with market-conforming economic policies. Like the 1920s and 1930s, labor is expected to adjust to the external financial balance through deflation since wages are, once again, seen as a fixed cost rather than a source of demand. And like the 1920s, mainstream parties are loosing voters while populists and extremists are gaining support across the continent in the midst of economic hard times and mass unemployment.

There is much to commend this account. It takes the forces of globalization and populism seriously and joins them together in a »causal story« that is invoked by contemporary social democratic politicians; and intuitively, it seems to fit the facts (Stone 1984). Yet, I want to suggest why such an explanation may in fact be flawed. First of all, if the claim that globalization has somehow »changed everything« is contestable, then it cannot follow that resurgent right-wing populism is a result of it. Second, if the much invoked logic of global constraints and the politics of necessity it demands are somewhat undermined by the available evidence, then we must ask why European politicians, particularly social democrats, invoke these constraints and act »as if« they are as real and pressing as their rhetoric maintains. Following this line of argument suggests an alternative, or at least complimentary, rendition of the rise of European neo-populism and its relationship to social democracy. One where party politics drive economic logics, and not the other way round.

How Tight are the (Global) »Ties that Bind«?

There are a huge number of possible »globalization effects« that have supposedly rendered social democratic policies redundant. The basic »globalization has changed everything« thesis has the following structure. The shift undertaken by developed economies to open capital accounts and floating exchange rates in the 1970s and 1980s combined with the independent growth of capital mobility to produce a world where foreign direct investment is an increasingly important source of growth (Helleiner 1994). Such capital is mobile however, and international investors will exit economies with higher than the equilibrium rate of inflation (Przeworski and Wallerstein 1992). In order to avoid such dis-investment and the attendant problems of devaluation and unemployment that it brings, states must eschew fiscal and monetary policies that are either inflationary or redistributive (Cerny 1995).

In such a »globalized« world traditional social democratic policy tools such as deficit financing become redundant, and states must deregulate their product, labor, and financial markets to capture globally mobile capital. Taxing locally, it is argued, no longer produces growth, just capital flight.[1] While there is certainly something in this account, we must question to what extent such global constraints are truly constraining, for there is a great deal of current research that suggests otherwise. Let us examine a few core claims of the »globalization as constraint« thesis and a few objections to these claims.

First of all, many of the counterfactuals implicit in these claims do not stand up to scrutiny. If capital is now so globally mobile that deficits are out of the question, why is it that in the pre-globalization period (1950–1970) deficit financing was not actually practiced very much at all? Indeed, far from the popular picture of social democratic governments in the post-war period constantly running deficits to promote an inflationary and unsustainable employment level, the fact is that most OECD countries in this period did not run deficits. Even the poster children of neoliberal reform, the UK and Sweden, do not fit this pattern. The UK's first post-war deficit was recorded in 1975, while Sweden's occurred in 1976 (Callahan 2003, Blyth 2002). To what extent then are markets eager to punish behaviors that never took place? Indeed, why should contemporary social democracy be constrained by the lack of a policy option that it did not exercize in the first place?

Second, arguments about trade competitiveness and its effects on both growth and employment in Europe are overblown. Competitiveness is often seen as an issue of cost reduction to remain in business (Prestovitz 1994). Yet this is a shallow way of looking at the issue since many industries trade on quality, not quantity. BMW, after all, has not been shut down by Kia. Similarly, arguments about trade substitution through import competition are often exaggerated. The four major East Asian newly industrialized countries (South Korean, Taiwan, Hong Kong, and Singapore) accounted for less than six percent of world trade by 1990 (Wade 1996 p. 69). How this can account for an average three-fold increase in unemployment across the whole of the developed world during the 1980s is far from clear.

Third, and particularly germane for the European context, if one takes Europe as a single unit rather than as individual competing countries, while trade between these countries has increased rapidly, trade between

1. Such policy statements have become commonplace among contemporary social democratic leaders (Blair 1998, Brown 1998).

»single unit Europe« and the rest of the world has actually decreased. Europe, as a single market and single monetary unit, is turning inward and *de-globalizing* its trade (Hay 2001). Given this, if Europe as a whole has experienced higher than average unemployment and lower than average growth, then the answer why may be similarly parochial. One may blame global competition for the loss of jobs, but the strict monetary stance of the European Central Bank and the deflationary effects of the Maastricht convergence criteria are arguably just as important in explaining patterns of growth and employment (Howell 2002).

Fourth, capital flight, the great constraint to be avoided, oftentimes does not occur as the theory outlined above would dictate. For example, in the run-up to the Swedish elections in 1994 several of Sweden's largest firms sponsored a newspaper advertisement that threatened a capital strike if the Swedish social democratic party (SAP) was elected. Yet such a threat – as clear an example of a »capital mobility as constraint« argument one could wish for – merely seemed to push up the SAP's vote. After the election and the victory of the SAP, none of the firms that made the threat actually left Sweden (Blyth 2002 pp. 235–6). Indeed, cross-national examination of financial market behavior suggests that partisan composition of a government matters little to market actors, and overall, the response of financial markets to partisan policy shifts in advanced economies is quite mild most of the time (Mosely 2000). One could continue and discuss how other global factors often identified as the limits to social democracy are either similarly undermined by the evidence – for example, how tax rates have *not* »raced to the bottom«. Instead, let us now consider an alternative explanation where party politics drives policy imperatives, and not the other way about.

Parties and Political Change

Part of the problem in developing an alternative explanation of policy change as driven by party politics instead of external environmental shifts is that most of the literature on political parties tends to see them as passive creatures who respond to external changes but seldom initiate them (Blyth and Hopkin 2003). For example, the classic Lipset and Rokkan model of European political alignments saw parties as functional responses to the demands of industrialism and nation building (Lipset and Rokkan 1964). In such a world parties responded to external stimuli by occupying the specific class locales opened up by external environmental changes. Parties react, they do not act to change the world around them. Such a »structural bias« is also seen in the way we think about the evolution of political parties.

For example, Duverger's classic interpretation of how elite-based cadre parties give way to mass parties of integration was undone by the fact that mass parties stopped behaving as mass parties (Duverger 1954). As Kirchheimer noted, in the changed context of the post-war welfare state, the integration of party members gave way to the provision of public goods for constituents. Elite parties adopted mass party forms and began to act as »catch-all« coalitions that sought to supply ever-wider electorates with alternative baskets of public goods (Kirchheimer 1966). While this is certainly a fair interpretation of the politics of this period, note once again how in this treatment parties appear as passive creatures. The external environment changes, and parties respond to those changes. Elites give way to classes because of industrialism and demands for suffrage, while classes in turn give way to masses as industrialism turns into the equalitarian post-war welfare states. Parties accommodate to the environment, they do not shape it. Yet is this a satisfactory view of parties and what they do?

Parties are unique creatures in that they are simultaneously agents and structures. They are institutions of democratic representation at the same time as they are agents who seek to manipulate their environment in order to win elections. This side of the story – of parties as creative agents – has been much neglected in the literature on parties.[2] Recently though, this has began to change. Colin Hay's work is instructive in this regard. Rather than put parties in the passive, Hay focuses upon how parties can engage in one of two strategies: preference accommodation and preference shaping (Hay 1999). Preference accommodation occurs when parties take the world as given, and acting as vote-maximizers seek to capture the median voter by offering different baskets of policies (Downs 1957). Parties thus compete in a policy space pre-determined by voters' preferences. In contrast to this model, Hay offers an alternative way of viewing the relationship between parties and their environment.

For Hay, parties do not offer calculable policy outcomes. Rather they prospectively offer voters policies that will supposedly bring about certain »states of the world«. Thus an act of interpretation is required by the voter (Mackie 2001). Voters do not »buy policies« so much as they accept

2. Except of course for the literature on political business cycles.

certain narratives of how, for example, tax cuts will increase investment, or how labor market flexibility will increase employment. Therefore, the median voter's position is not a structurally given fact that parties must take as given. Rather, parties must engage in the politics of preference shaping in order to win elections; that is, actively shaping where the median voter lies, and what content the median policy can have (Esping-Andersen 1985).

> Two key changes have occurred that have effectively turned parties from vote maximizing competitors into risk averse colluders: the limits of catch-all politics, and the rhetoric of globalization.

Parties in Hay's world shape their environment; they are agents more than they are structures. Hence, if we wish to understand their policy choices and outputs, perhaps we should look for reasons internal to their operations and organizations, rather than simply accept the argument that external constraints determine their choices. This is not to deny external constraints any role in limiting political choices. Clearly such a position would be too extreme. Nonetheless, with the less than overwhelming evidence in favor of the »globalization equals no alternative« narrative, we should take seriously approaches that see parties as agents of their own destinies; destinies that may produce the very constraints we commonly attribute to external causes.

The New Political Economy of Party Politics: Firms, Parties and Policy Choices

One promising avenue of research in this regard has been the notion of the cartel party (Katz and Mair 1995). Building upon Panebianco's notion of the »electoral professional party« where changes in the technology of elections and the life-cycles of politicians have combined to create a new party form, Katz and Mair argue that political choices have effectively become cartelized. With the rise of electoral-professionalism, parties have less need for members at the same time as the costs of being a party increase. As such, parties increasingly rely upon state subventions to survive. These established parties also raise barriers to entry for smaller parties (thresholds etc.,) thus creating an insulated policy environment among established elites. By cartelizing the political market in this way the risks of failure are mitigated by insulating parties against catastrophic failures at the polls through increased public funding and restricted choices. Such an approach offers a promising angle on thinking about how parties may themselves create their own constraints. However, in order to better specify a model of cartel politics, it is necessary to lay out what a cartel is in economic terms and what it is not. Only then can we see how much explanatory leverage such theory can give us in the political realm.

A cartel is a joint sales agency (Steigler 1964). The purpose of a cartel is to maximize joint profits of oligopolistic firms through the restriction of competition. Firms are able to collude by varying either prices, quantities, or both. The rationale for joint sales maximization rather than competition is that the long-run average cost curve for an oligopolistic firm reaches its minimum point at a relatively large fraction of the size of the total market. Consequently, price competition between firms will not necessarily drive any individual firm out of business. Being large enough that market price is not simply a structural fact presented to firms that they have to accept, firms' price decisions are »strategically interdependent« – they depend upon other firms' choices. Market price *can* be set by the firms themselves rather than being dictated by competition, so long as they cooperate, which is precisely the problem with cartels.

While joint maximization would be profitable, the individual first-best choice in such a situation is to defect and go for market share at the other firms' expense.[3] However, realizing this, all firms should then defect at the first possible opportunity. As a consequence, cartels should be very difficult to get started and very costly to maintain, and indeed, experience shows that stable cartels, in the economy at least, are somewhat rare. There is however a possible solution to such stability problems.

Few things in life are a one-shot game. Iteration, multiple play, and thus learning by doing characterize most of social and economic life. Firms can learn from past defections how costly price wars can become, and in order to avoid such costs in future, firms may be willing to »follow the leader« to stabilize their market share. That is, one firm may act as the leader and others will follow. Stability can thereby occur without overt conspiracy. By announcing a price rise (or a quantity cut) this leading firm »tacitly signals« to the others their own revised outputs. In such circum-

3. Periodic airline fare wars are a good example of this type of behavior.

stances other firms follow the leader, thus limiting their own outputs and achieving higher long-run profits rather than what would be achieved by competition.

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In order to understand why contemporary politics mimics cartel dynamics we need to find political analogs for firms and for quantities. First of all, given that contemporary Western European party systems are oligopolistic in terms of numbers and market share, it is hardly a stretch to see such a system as oligopolistic and major parties as the equivalent of major firms (Taagapera and Shugart 1989, Gallagher, Laver, and Mair 2001).[4] However, establishing this fact alone does not make it a cartel. To make this further claim we need to find analogs for quantities. If we assume that, economically speaking, quantities represent outputs, and that the output of parties in government are policies, then we can further assume that policies are the functional equivalent of quantities.

If this is the case then the key question is how parties set policy quantities, that is, tacitly collude and thus cartelize the market for votes? Indeed, why would parties do this rather than compete? Contra the above claims about the pressing necessity of global constraints, I argue that two key changes have occurred that have effectively turned parties from vote maximizing competitors into risk averse colluders: the limits of catch-all politics, and the rhetoric of globalization. In turn, these changes have themselves encouraged new adaptive strategies that have together cartelized the party system, created cartel parties, and prompted the rise of right wing neo-populism.

4. During the 1980s, the effective number of parties in European parliaments exceeded five only in Finland (5.1), Italy (6.9), the Netherlands (5.1), Belgium (8.5), and Switzerland (5.8).

Why Cartelize? The Fiscal Limits of Catch-all Politics

For clarity of exposition, assume a party system that is dominated by two parties that produce the catch-all policies typical of the post war era; full employment, public housing programs, and redistributionary taxation. Further assume that each catch-all party has attempted to maximize support through its expansion of such public and private goods provisions. Logically, if both parties pursue the same strategy, then voters will become increasingly indifferent to party choice. If we further assume that voters would prefer more public goods to less, but also assume that there is a defined fiscal limit beyond which such provisions cannot be made without creating a fiscal crisis, then the catch-all strategy runs into a structural limit that may be both welfare decreasing and election loosing.[5]

Two consequences follow from this. First, the space for policy competition is effectively reduced. States cannot squeeze any more resources out of their societies for the production of public goods without harming growth itself. Consequently, policy competition, in terms of providing more and more public goods in order to win elections becomes less feasible. Second, at the same time as reaching such fiscal limits, as many states arguably did in the late 1970s and early 1980s, two further problems arose that finished off catch-all politics: the technologies and costs of elections changed while party members actually became less relevant for the problem of winning elections.

First, the technology of elections moved away from mass participation to media marketing. Union blocs became less valuable than such things as newspaper endorsements, television time, and large private donations. Thus the costs of providing public goods began to exceed the capacity of states to provide them at the same time as the costs of running electoral campaigns increased beyond the capacity and willingness of the party members to foot the bill. Second, the risks to both individual politicians and parties increased pari passu with these costs. By the 1980s the days of politics as a gentlemanly vocation were over for major Western European political parties (Panebianco 1979). Parties were composed of permanent representatives whose livelihoods depended upon election and large bureaucracies that depended upon stable counter-cyclical funding. Thus,

5. In that the costs of producing such provisions (lost growth, sluggish investment etc.) exceed the benefits they produce.

on a systemic level, catch-all politics reached its fiscal limits as a strategy that would promote party success and stability. Meanwhile, on a more micro level, the catch-all party form, with its dependence upon mass memberships and steady voting blocs, became a less reliable organizational form in the face of rising costs, declining turnout, increasing volatility, and the declining utility of members.

This squeeze was particularly problematic for social democratic parties. While parties of the right had never been too comfortable with ever widening public goods provisions, using the public purse for the public purpose was what social democracy was all about. Caught in the double squeeze of diminishing returns to catch-all policies and a dysfunctional organizational form, social democrats throughout the 1980s sought to win elections by contesting the policies of the right. Specifically, fighting unemployment was the key issue that the left focused upon during this period. However, after 1975 governments of all complexions effectively reduced the reservation wage by increasing, or at least allowing the increase of, unemployment. Thus an individual risk traditionally compensated for by the presence of full employment gave way to a new market discipline (Kalecki 1944, Shapiro and Stiglitz 1984, Korpi 2002). Consequently, voters could state their public preference against unemployment in survey after survey during the 1980s and then vote against those preferences at election time, much to the chagrin of social democrats.[6]

As the cartel thesis would dictate, competition was not working for the left. Perhaps then, collusion would? Driven by organizational survival more than by conviction, left parties began to *not compete* on the issue of unemployment. Inflation was similarly declared the number one enemy above unemployment after forty years of holding the opposite. Monetary policy was »depoliticized« and handed to »independent« experts, and those who would benefit least from such changes, social democratic voters, were neglected as left parties sought to target professionals and middle income groups. After all, if members were no longer financially useful, did not vote anyway, and if they pushed the party in »extreme« directions, why appeal to them? However, abandoning policy in the face of electoral expedience is one thing, justifying it is another, and this is where the logic of global constraints becomes compelling; but not in the form commonly presented. Cartelization may make sense for the party in terms of a survival strategy, but to win elections by not competing over tradi-

6. See Eurobarometer, any year 1980–1990.

tional areas needs a whole new rationale. Luckily, such a rationale was at hand.

How to Cartelize? The Rhetoric of Globalization

The social democratic parties that produced social democratic outputs were creatures of the Keynesian era. Governing parties of the left and the right were assumed to have primary responsibility for ensuring jobs and growth, and were also assumed to be able to marshal fiscal instruments to those ends. Unfortunately for the practice of catch-all politics, but fortunate for a new generation of social democrats concerned with the very survival of their parties, a reformation in the way policymakers and their economic advisors *thought* about the economy occurred over the same period. This was the new logic of global constraints.

In contrast to Keynesian era policy making, which assumed that »people had no knowledge of the economic system and did not perceive any interrelationships between the (hypothesized) variables«, economic policy-making in the 1980s became increasingly dominated by new theories such as rational expectations, which argued that people do indeed invest in being correct – to the point that »economic agents are assumed [to be] completely aware of the ›true‹ structure of the economy … and make full use of this in forming their expectations« (Bleaney 1985 p. 142, 143). The consequences of such an ideational shift are dramatic, for it argued that while we can expect *individual market participants* to make mistakes, systematic mistakes *by markets* are impossible.

> If the point of social democracy was to correct for market failures, what was the point of social democracy in a world were markets did not fail?

If one further assumes that »[deregulated] financial assets embody the true value of their real counterparts, creating an environment in which individuals trading in these assets can make Pareto efficient decisions« then it is hard to avoid the conclusion that free and integrated markets will yield superior economic performance to regulated markets with employment and output being produced up to the »natural rate« possible. This »neo-liberal« worldview »present[s] a picture of economic efficiency being dependent upon free markets for goods, labor, and finance, and a minimalist state. Market liberalization is accordingly beneficial because it involves the removal of market distortions, which are *by definition* inefficient« (Eatwell 1996 p. 10).

In such a world, social democratic catch-all parties and their attendant policies become counter-productive. For if they accept this logic, then any intervention into the market, whether done for the private interest of election or for the public interest of boosting the economy with the public good of growth, can only end in disaster. If the point of social democracy was to correct for market failures, what was the point of social democracy in a world were markets did not fail? The attraction of such arguments as a way of eschewing policy commitments, arguments proffered with such gusto by contemporary social democratic leaders, is not difficult to see. These new ideas, so antithetical to traditional social democratic objectives, combined with the very pressing electoral and financial constraints social democratic parties faced during the 1980s to produce two new survival strategies: a downsizing of constituent expectations and an externalization of policy commitments. The end result of which was to »reform« social democracy back into power; or more appropriately, to cartelize it.

Cartelizing the Party System: The Discourse of Downsizing Expectations

The first survival strategy was to downsize voters' expectations since social democratic parties had an interest in reducing the policy commitments that had overextended them in the first place. Once the limits of catch-all politics were reached, social democratic party elites quite instrumentally embraced the new ideas about the economy detailed above as a way of ratcheting down constituent expectations. In cartel terms, they were signaling other parties that they were limiting quantities (policies) and encouraging joint maximization (stability of tenure). Consequently, if other parties did the same, they could cartelize the market and get more profit (hold on office) and security (minimal cost of electoral defeat) for less (lower policy commitments.) How then does one ratchet down expectations?

The first way, particularly apparent in the UK, the US, Sweden, and increasingly Germany today, was discursive. Social democratic parties proclaimed their devotion to the free market and the global economy, despite all its draw-backs for their traditional constituencies. They did this because they had discovered a »third way« or »neue Mitte«, which held that states should not produce the public goods they had in the past because the market could do it better. Whether the market could in fact do it better was a moot point. What was important was that the deployment of such a discursive strategy got parties »off the hook« for the production of such goods in the first place. Thus, in order to survive in a post-catch-all environment the rhetoric of globalization and various »third ways« were employed by social democrats throughout Europe (Hay and Rosamond 2002).

Cartelizing the Party System: The Externalization of Policy Commitments

Having achieved power by encroaching on traditionally right-wing policy areas, parties could signal their resolve to each other by creating institutional fixes to the problem of policy commitment. This would lock in expectation reduction and thereby signal a credible commitment to the cartelization of the political market as a whole. The logic of central bank independence illustrates this nicely. According to the new ideas developed to justify state rollback, politicians – through their overproduction of public goods – tended to mesh the electoral cycle to the business cycle in order to get reelected (Nordhaus 1975, Hibbs 1976). Consequently, the equilibrium rate of inflation was always going to be higher than what it would be absent such political »interference«. Since the electoral cycle was a recurrent fact, although politicians may proclaim that they will reduce inflation once they are in office, they cannot actually do so in practice because their inflation preferences are said to be »time inconsistent«. Given this, politicians should not be given the instruments to reflate the economy in the first place. The best way of assuring this was then to devolve monetary policy to unelected central bankers with long time horizons. Only such a group would have preferences that would produce low inflation and thus safeguard growth (Kykland and Prescott 1977, Persson 1988).

Such policy externalizations and exercises in downsizing expectations have been embraced by social democratic parties across Europe as the optimal solution to the multiple dilemmas they face. By devolving policy to others who are not directly responsible to their electorate at the same time as discursively ratcheting down expectations, parties of all complexions are able to institutionally fix policy quantities and qualities regardless of who is in office. By doing so major parties can cartelize the market for votes by reducing the policy space over which parties can conceivably compete. Seen in this way, such institutional fixes are the equivalent of binding quotas on policy production.

Having an independent central bank means that politicians are no longer responsible for either creating or managing economic outcomes. As such, they cannot be held accountable for their effects. Policy externalization to other »independent« institutions, such as the EU and the WTO, further insulates politicians from voters' preferences and effectively truncates the possible supply curve of policy. Deploying such strategies in an uncertain electoral environment effectively insulates elites from claims by their constituents. Responsibility for monetary policy is given to central bankers, responsibility for employment is devolved to regional parliaments, welfare provision is given over to private institutions and non-governmental organizations, while public investment is awarded to »public-private initiatives«. Rather than maximizing votes as competitors, social democratic politicians may have discovered that governing less may be less risky than promising more.

Where then do we see such dynamics? The preceding section suggests that we should see policy convergence among oligopolistic parties coming from two angles: from the deployment of policy rhetorics designed to downsize expectations and from the increasing institutional externalization of policy commitments. Examples would include the privatization of welfare services, the independence (from elected officials) of central banks, and the transfer of responsibilities, either upward to supranational institutions or downward and outward to devolved assemblies and the private sector. In this final section we examine these hypotheses with regard to two polar cases: the most liberal of European states, the UK, and arguably the most social democratic, Sweden.

Cartelization in the United Kingdom

Catch-all behavior was typical of British politics in the 1960s with the general acceptance of the welfare state and Keynesian economics that came to be known as »Butskillism«. This development was short-circuited, however, in the late 1970s by both parties' inability to deliver sufficient material benefits. This culminated in the Conservative's defeat at the hands of the Miners Union in 1974 and Labour's fabled »winter of discontent« and defeat in the 1979 general election. These events led initially to the victory of the so-called »hard left« within the Labour party and extended electoral defeat. Being faced with an unelectable opponent and unpopular policies, the Conservative Party had no incentive to behave like an oligopolist and behaved as a policy monopolist, effectively closing Labour out of the market. Given this, the last twenty years of British party politics has been the story of the Labour Party's attempt to reestablish its position within a cartel, and in order to do so it had to create an oligopoly out of a monopoly.

By 1992, the Labour leader Neil Kinnock had reestablished some control over the party manifesto, and after loosing two elections the party began to drop many of its traditional commitments. Internally, in 1993 the Labour party adopted the one-man one-vote principle for choosing both parliamentary candidates and members of the national executive, thus eliminating the unions' block vote. Under Tony Blair, this process has gone much farther. »New« Labour has actively courted and successfully solicited funds from business groups, while strongly signaling that the trade unions no longer have any special relationship with the party.

Evidence of the strategy of discursively downsizing expectations and truncating the policy space is famously indicated in the joint statement by Tony Blair and Gerhard Schroeder entitled »Europe: The Third Way/Die Neue Mitte«. Instead of catch-all inspired analyses of social problems, the document embraces the »globalization as constraint« arguments noted above. It explicitly (and without any evidence) declares that »corporate tax cuts raise profitability and strengthen the incentives to invest … It helps create a virtuous circle of growth …«; »the taxation of companies should be simplified and corporation tax rates cut«; »companies must … not be gagged by rules and regulations«, all of which signals a cartelization of the space for possible policy competition. Regardless of the truth or virtue of such policy statements, they are hardly what one traditionally would have associated with the European Left. However, what this does show is how commitments and expectations have been downsized and how the possible space for policy competition has been reduced.

We also see clear evidence of the externalization of policy commitments in the British case. In May 1997, the new Labour Government gave the Bank of England effective independence to set interest rates, subject only to the *advice* of an eight member Monetary Policy Committee appointed by the government. This major shedding of economic responsibility by the government was not even mentioned in the party's election manifesto. Meanwhile, the deepening of the European Union, in particular the commitment to join EMU in the near future, represents a further externalization of policy commitments as the government's obligation to take responsibility for economic policy can instead be blamed on the European Central Bank. Similarly, the institution of a Scottish parliament and a directly elected executive mayor for London allow the central government to shift responsibility for outcomes in these arenas as well. While these changes are usually interpreted as New Labour simply adjusting to the »new realities«, it is perhaps more accurate to recall that the global constraints often appealed to are rather underwhelmed by the evidence. Such policies are thus more accurately seen as a survival strategy than a structural fait accompli.

Cartelization in Sweden

In contrast to the perceived end of catch-all politics elsewhere during the 1970s, the Swedish Social Democrats (SAP) attempted a reflationary strategy called the »third way« upon returning to power in the early 1980s. The third way was a large devaluation aimed at giving Sweden a one-time terms-of-trade boost in exports. In this regard it was quite successful with Swedish economic performance throughout the early to mid 1980s being far superior in terms of employment and output than those pursued in the UK (Bosworth and Rivlin 1985).

Despite the good economic news, Swedish business groups were far from happy. Still hurting after the so-called Wage Earners Funds debacle in the mid 1970s where the SAP and the blue-collar trade union confederation (LO) attempted a leveraged buy-out of Swedish capital with their own funds, Swedish business went on an ideological counter-offensive (Steinmo 1988, Pestoff 1991, Blyth 2001). The Swedish Employers Federation (SAF) spent heavily, reinvigorating pro-market think tanks and influencing the public debate through lavish campaigns (Pestoff 1993, Blyth 2001). Simultaneously, the Swedish economics profession, which was strongly integrated into policy-making, underwent the same neo-classical reformation that had already occurred in the US and the UK (Blyth 2002). The effect of which was the transformation of the ideational context within which policy was made, a transformation that facilitated the eschewing of traditional areas of responsibility that Swedish business and its parliamentary allies were now no longer willing to accept.

The Swedish finance ministry of the 1980s was an important receptacle for these new ideas about the costs of welfare institutions on growth, the need for »competitiveness« in the »new global economy«, and the costs of high taxation and capital controls. Tax reform and financial deregulation became a crusade within the SAP's finance ministry. Unfortunately, the tax reform enacted in the late 1980s was under-funded and financial deregulation took place with external capital controls in place. Taken together this merely succeeded in creating a real estate bubble which, when it burst, increased unemployment to twelve percent – its highest level since the 1930s. Unsurprisingly, the SAP lost the election and the Conservatives came to power for the first time in forty years – and here the story gets interesting.

Given the influence of these new ideas on both the SAP and the newly empowered Conservatives, the Conservatives engineered a deflation *after* the real estate bubble burst which turned the deflation into a general collapse of economic activity (Blyth 2002). However, rather than capitalizing upon this error, the SAP took this as evidence that, in the words of the head of the Swedish Employers Federation, »after a long illness, the Swedish Model is dead«, and upon returning to power the SAP carried on with the same restricted and market-conforming set of policies.[7]

Indeed, by the 1998 elections both major parties' policy proposals had converged to the point where neo-liberal restructuring was very much the only choice on the menu. In terms of policy choices, both parties targeted inflation fighting over employment creation while sick pay and other welfare benefits were reduced. Moreover, policy externalization proceeded apace. Sweden joined the EU in the early 1990s in order, as the then Conservative prime minister put it, to make »tax cuts (and hence welfare reductions) more or less inevitable«.[8] Similarly, the Swedish central bank was made independent in the same period and the traditionally close relationship between SAP and LO became increasingly distant during the 1990s.

Here we see the same dynamics in Sweden as we saw in the UK. Sweden shows evidence of downsizing expectations, the externalization of

7. Ulf Laurin, quoted in *SAF Tiden*, 16 February 1990.
8. Carl Bildt. Quoted in P. Kurzer, *Business and Banking: Political Change and Economic Integration in Western Europe* (Ithaca: Cornell University Press 1993).

policy commitments, the truncation of the policy supply curve, and the cartelization of the system. All conditions receive *partial* confirmation in the Swedish case. Partial in the sense that since the late 1980s the first three have occurred, but the fourth has not. The reasons for which tells us a great deal about the limits of cartelized systems.

Populist parties can ignore what the cartel parties take to be reality and raise issues that the cartel parties have attempted to bury in their efforts to truncate the policy space. They may promise to deliver levels of public service that are deemed impossible by the cartel parties, secure in the knowledge that they will not be called upon to deliver on those promises.

Despite the SAP and the Conservatives insisting that »there was no other way« and that policy convergence to a neo-liberal agenda of diminished expectations and reduced commitments was the only choice on the menu, the Swedish public forgot to listen. The presentation of a cartelized set of policies by the two major parties in the 1998 elections resulted in a drop of support for the governing SAP from 45.4 percent of the vote in 1994 to 36.5 percent. However, this was not translated into support for the Conservatives as their share of the vote also plummeted, thus allowing the SAP to remain in office as a minority government, but only with the support of the Left Party – which gained 5.8 percent over their 1994 showing.

In sum, cartelization as a survival strategy reached its limits in that despite both parties' cartelized policy agendas, the SAP was forced by a popular demand for »restoration« of the welfare state to promise more money for health care and social services. As the New York Times noted, »the most repeated claim in this election was not the dynamic pledge to bring about change common to campaigns elsewhere in Europe but a solid promise to restore what was«.[9] Substitutes, in the form of the Greens and the former Communists allowed the Swedish public to exit the cartel and signal that while there may be only one choice on the menu, they may be prepared to eat elsewhere, thus exposing the limits of any cartelization strategy. And this is where an alternative account of the link

9. Warren Hoge, »Swedish Party Pledging Expanded Welfare Gains Slim Victory« *New York Times*, 21 September 1998.

between social democracy, globalization and neo-populism can be reconstructed.

Conclusion: Populism and the Limits to Cartelization

This paper has argued the following. The logic of global constraints often invoked to explain the anemic nature of contemporary social democracy may be less constraining than is often claimed. If this is the case, then the rise of right-wing neo-populism as a reaction to globalization, understood as a series of structural imperatives, may not be so clear-cut. However, what is important is that social democrats either do believe that these constraints are real, or as suggested above, have embraced such ideas as a way of downsizing expectations, externalizing policy commitments, and freeing policy-makers from the constituents' demands as a survival strategy. The embrace of a rhetoric of globalization by social democrats enabled them to survive the 1980s by cartelizing the policy space available to them. By doing so they successfully competed with the right and lowered their own costs of defeat, but at the cost of narrowing the choices available to the electorate. The result was to lower turnout and turn away from their core constituents. Such strategies of discursive construction, institutional binding, and policy externalization may make the cartel of parties who do not really compete more secure, since they effectively compete over less, but such a strategy is immensely costly in the longer term.

Cartels face two threats. One is defection by members seeking short-run advantage at the expense of their colleagues. This paper has argued why such defections are unlikely. The other threat to a cartel comes from the availability of substitutes, that is, outsiders. Populist parties can ignore what the cartel parties take to be reality and raise issues that the cartel parties have attempted to bury in their efforts to truncate the policy space. They may, for example, promise to deliver levels of public service that are deemed impossible by the cartel parties, secure in the knowledge that they will not be called upon to deliver on those promises. Or they may attack the cartel itself as a conspiracy against the public on the part of self-serving political parties. Indeed, such appeals are increasingly common features of European politics. Regardless of the strategy employed, cartels invite challengers. And if the cartel parties in their efforts to secure themselves from failure tell their traditional constituents that there really is no alternative, then those constituents may well turn to those who do offer alternatives. This is, of course, what also happened in Sweden in 1998, where in addition to the Left Party, the other big winner was the Kristdemokraterna, which gained 7.8 percent over 1994.

What if a populist party achieves power and actually does want to change things? Riding on the back of mass discontent such a party may well prove the weakness of the global ties that bind, in a way reminiscent of the last time Europe refused to give its mass publics any real alternatives.

As populist parties increase in strength, cartel parties have two options. One is to try to co-opt these parties into the cartel. One could certainly argue that this was what was attempted in Italy during the so-called period of national solidarity, is perhaps what has been happening with the Greens in Germany since 1998, and has certainly been the response of the Austrian cartel to Haider's Freedom Party. Indeed, such examples may well show that populists do not really want to change all that much. Rather, they simply want to be part of the cartel themselves.

Another possibility exists however – continued exclusion. But this is likely only to reinforce the perception of a lack of choice or a political conspiracy, and continue the decline both of the vote received by the major parties and the decline of electoral turnout that has been observed throughout the industrial democracies. Such outcomes paint a gloomy prospect for liberal electoral democracy, let alone social democracy, with its legitimacy sapped by a lack of choice leading to declining interest and increasing cynicism. But to bank on continued exclusion is risky in another way. For what if a populist party that contests these external constraints achieves power and actually does want to change things? Riding on the back of mass discontent such a party may well prove the weakness of the global ties that bind, but in a way far more reminiscent of the last time Europe refused to give its mass publics any real alternatives. This may be the real cost of saying »globalization made us do it«.

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