

THE CRISIS OF LIBERAL DEMOCRATIC SYSTEMS

The future for social democracy and the challenge of liberalism

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Demonstration to commemorate the 50th anniversary of the Carnation Revolution in Lisbon, Portugal, 25 April 2024. Photo: Ana Mendes/Esquerda.net

Social democratic politics have had a hard time for several decades. [1] At their peak in the late 1980s, parties or coalitions led by social democratic parties governed 12 of the then 15 EU countries. The situation nowadays is very different and, according to the polls, in the coming EU Parliament elections, populist and right-wing parties are going to be the winners. [2]

There may therefore be good reason to rethink which type of social democratic policies have been successful or have failed during the roughly 100 years socialist parties have been serious contenders for political power. The question is whether there is a common denominator for what has led to success and what has led to defeat. Successful politics, I would argue, are those that have made it possible to create a majority among the electorate and also been shown to lead to substantially positive results in terms of improving living conditions for a majority of the population. Here, one can of course point to the development of the universal welfare state based on social reforms that target entire or very broad sections of the population. Such reforms include universal child allowances, national pension systems, free health and elderly care, and tuition-free education. Another great success for the left are policies for increasing gender equality, whose main features are based on the liberal principle that men and women should be given equal opportunities in common organisations, be it the family, civil society, government organisations or the

workplace.

However, the defeats of socialist (or, if one prefers, social democratic) politics are not so few. In Sweden, one can point to the wage-earner funds which were indeed introduced in the 1980s but abolished by a conservative government in 1994 and which have never been heard of since in the political debate. In the US, one can point to Hilary Clinton's defeat by Donald Trump in 2016. In Latin America, the collapse of Venezuela under Presidents Chavez and Maduro should be added to this sad list. Further back in time, we have the massive defeat of the British miners' union by Margaret Thatcher in 1985. Even further back is the defeat of the Republican side in the Spanish Civil War in 1939, and of course the crushing of the German labour movement by the Nazis in 1932, the victory of fascism in Italy in the 1920s, and the defeat of the Reds in the Finnish Civil War in 1918. And for those who continue to believe in the blessings of the planned economy, the collapse of the Soviet system in 1989 must obviously be added.

What distinguishes successful left-wing politics is that it is built on a union of the liberal principle of individual rights and the socialist idea of social justice. Successful social reforms and gender equality policies have been based on individual rights to pensions, health care, education, equal rights for men and women, etc., and not on group or family-based rights. In an earlier piece on this website, I called such successful left-wing politics liberal socialism. [3] It is when the left have disrespected the principles of liberal democracy and individual rights that it has been defeated. Let's take this from the beginning.

In February 1918, the later legendary Swedish Social Democrat Gustav Möller went to Finland. His mission was to try to mediate in the then raging civil war and to persuade the Finnish Social Democrats to refrain from following the violent path of Bolshevik violence. In Helsinki, the so-called Red Guard had taken power and started conducting arbitrary detentions, extensive beatings of "class enemies", and a large number of executions of people they perceived as "bourgeois". Möller did not mince his words when he met his Finnish party colleagues. He argued that if they tried to win political power by violent means, the "moral force" that left-wing politics must be built on would be lost. He also argued that their strategy entailed a huge risk because the "White forces" could very well win. But the Finnish socialists refused to listen to the warnings from the Swedish Social Democrats, arguing that they believed they could succeed in the "class war" by winning through military force. This turned out to be a vain hope. The Finnish Civil War of 1918 ended with an appalling price in human suffering for the Reds. As a percentage of the population, more lives were lost [4] during this short war than in the Spanish Civil War from 1936 to 1939.

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The defeat of the Italian Socialists by Mussolini's fascism took a similar pattern. The years 1919-1920 are called the "two red years" when the country was close to a full-scale civil war. Supported by parts of the Socialist Party, much of the violence was initiated by the left. A very large number of armed illegal factory occupations were carried out, with the companies to be controlled by workers' councils following the Soviet model. A large part of the Italian Socialist Party simply wanted to copy the Bolshevik Revolution, but their strategy failed. There is much to suggest that it was the Socialist Party's failure to stand up for the principles of liberal democracy that paved the way for the rise of fascism and Mussolini. [5]

Fascism's victory in the Spanish Civil War also followed a similar pattern. Usually, this war is described as a democratically elected government being attacked and defeated by Franco's fascist army. But this is only part of the truth. What distinguished the Spanish Socialists under the leadership of Largo Caballero (who dreamed of becoming a Spanish Lenin) was a politics of violent confrontation under the battle cry "Harmony? No! Class War! Hatred of the Criminal Bourgeoisie to the Death". [6] The policy of the Spanish Socialists when they democratically entered government was thousands of illegal and arbitrary arrests and allowing acts of violence on their part to go unpunished, plus unlawful confiscations of property. The democratically elected Popular Front government so clearly violated the principles of liberal democracy, it drove large parts of the Spanish population to support Franco's fascism. [7]

In regard to the victory of Nazism in Germany, one can mention the class-against-class policy of the German communists. With the argument that it made no difference whether the exploitation of the working class was carried out under "bourgeois democracy" or under fascist dictatorship, they refused to support the German Social Democrats and the liberal bourgeoisie's defence of democracy. Such support would probably have had a good chance of stopping the advance of Nazism.



A girl holds up a red flag during a demonstration of the *Indignants* movement in Barcelona, Catalonia, June 19, 2011. Photo: Jordi Borràs

In more modern times, one might mention the extensive British miners' strike of 1984-85 which ended in crushing defeat. However, the aim of the strike was not primarily to improve the position of the miners but to overthrow the democratically elected government led by Margaret Thatcher. [8] Such a manoeuvre had been successful in the past when, through a strike, the conservative government led by Edward Heath had been forced to resign 10 years earlier. The leaders of the British miners' union also refused to hold a ballot on going on strike among its members, which it was obliged to do by law and its own rules. The miners' union also used violence against the large group of miners who chose not to join the strike..

For Sweden, the abolition of wage-earner funds must be seen as a major political defeat for the left. As I have argued elsewhere, [9] this defeat was so painful that it effectively led to a taboo within the labour movement on discussing economic democracy at all. One thing that clearly distinguished the wage-earner fund proposal from the many successful policies of the Swedish Social Democrats was a complete lack of connection to the work situation and the economic conditions of the individual employee. There was nothing in the proposal about how the companies (unclear which ones) in which the funds had shares would act differently and what this would mean for the (unclear which) wage earners who worked there. The wage-earner funds were not only a defeat for the left but also led to an extensive and successful neo-liberal ideological mobilisation of the Swedish business community.

Finally, Hilary Clinton's defeat against Donald Trump. One explanation presented for this is

that the left in the US has come to be associated with identity politics advocating group rights. [10] for minorities. Many of the “losers” within the white working class have come to blame their difficulties on the existence of various forms of quotas favouring minorities. Criticism of the left’s identity-based group rights became a successful theme for Trump’s Republicans..

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There is thus a clear pattern in terms of the success and failure of left-wing politics. Policies that combine reforms for social and economic justice with central liberal principles such as respect for individual autonomy, individual rights and the rule of law, i.e. liberal socialism, have been successful. Policies that have trampled on these principles have led to severe and widespread defeats. This, I would argue, is something to consider for the future strategy for the political left.

For the vast majority, liberalism and the social democratic version of socialism are ideological and political opposites. The social democratic left is considered to stand for state control of society, state ownership and some version of central planning of production instead of allocation through the market economy. And for most people, liberalism is synonymous with the individual’s self-determination, the primacy of the market and limited state. Social democrats generally believe that liberals are insensitive to the inequalities to which the market economy gives rise and place far too much responsibility on the individual when it comes to dealing with social problems. Liberals, on the other hand, believe that socialists underestimate the dangers of too much state power, do not pay enough attention to individuals’ rights and ignore the market economy’s propensity to grow.

Historically, however, a few political thinkers have challenged and sought to dispel this counterposition. One who did was Carlo Rosselli, who as early as 1929 launched the concept of liberal socialism. Rosselli, [11] who came from a wealthy Jewish family, joined the Socialist Party in Italy early on. He developed his critique of Marxist determinism after the class struggle pursued by the party in 1919-20 -amid a massive wave of strikes involving much violence and many factory occupations- brought the country to a situation close to civil war, from which Benito Mussolini’s fascists emerged triumphant.

Rosselli gave up a promising academic career to join the anti-fascist movement and, after helping some militants escape, he was detained in a prison camp on Lipari, where he secretly wrote his only book, *Il socialismo liberale*. Translated and published in English in 1994, [12] it criticised the party for ignoring the fact that the working class was in the minority and for giving reactionary forces motives for illegal political actions that resulted in the victory of fascism. According to the well-known Italian political philosopher Noberto Bobbio, *Il socialismo liberale* became the “little red book” [13] for him and many others in

the resistance movement during the 1930s.

Rosselli argued that the struggle for socialism must be framed by democracy and the rule of law: liberalism's defence of the rights of the individual was the ethical basis of socialism. He condemned the dictatorship established by the Russian Communists and Vladimir Lenin's craze for bureaucratic exercise of power, which he opposed with an economy based on decentralisation and local autonomous co-operatives. He criticised the "class against class" strategy of the Third International under Josef Stalin, which lumped "social fascist" Social Democrats together with the enemy, making unity against fascism impossible. Instead of Stalin's forced collectivisation of agriculture and one-party dictatorship, Rosselli advocated structural social reforms that would increase individual freedom in a civil society.

After more than two years in captivity, Rosselli managed to escape to France, where he created the "Justice and Freedom" movement, an important part of the opposition to fascism. In June 1937, he and his brother Nello were murdered [14] by French fascists in the spa town of Bagnoles-de-l'Orne. Legal proceedings after the war showed that this was in all probability on behalf of Mussolini. The brothers' funeral in Paris turned into a major anti-fascist demonstration, with more than 100,000 participants.

It is astonishing that in more than a century the social democratic thought has not confronted the notion that the owners of the means of production have the right of command in the relations of production

In Sweden, meanwhile, Gustav Möller was also an original liberal-socialist thinker. A legendary social-democratic politician of the "second generation", he was Minister of Social Affairs from the early 1930s to 1951 and creator of the cornerstones [15] of the universal Swedish welfare state. Like Rosselli, and as mentioned above, Möller was appalled by the effects of maximalist, revolutionary class politics, for him demonstrated by the civil war in Finland. [16] In 1918, Möller was sent to Finland by the Social Democratic party as one of three mediators. Meeting the leaders of the Finnish Social Democrats, he sharply criticised violence and abuses by those on the Red side, asserting [17] that this meant they lacked the "moral force" to counter the bourgeois reaction. His interlocutors however rejected [18] the mediation proposals and chose to continue the class war -which ended in bitter defeat.

Möller drew the same conclusions as Rosselli from the class conflicts in Italy at the time: the socialist movement must not deviate an inch from parliamentary democracy and the rule of law. He also concluded that it was not possible to build socialist strategy solely on the working class because it neither was nor would become the majority. Instead, the socialist side should seek broader alliances, as the Swedish Social Democrats were to do with the peasants in the 1930s and later with the middle class.

Möller was also very critical of the Communists' preference for socialism as the nationalisation of production. In a famous speech [19] to the Scandinavian Workers' Congress in Copenhagen in 1920, he said in reference to the state's relationship with private firms: "There is no doubt that when we realise these great plans, we must also solve the problem of bureaucracy. It is of no use to create a state where the civil servants sit in the agencies and lead and control production. We have to create other forms."

His main idea was that production would be carried out by autonomous, self-governing companies, where the employees as well as consumers and representatives of a broader societal interest sat on the boards. The entire responsibility for the development of production would lie "with the company itself", [20] —not a central planning body. Although Möller's political career was much longer than Rosselli's and his party was in power, not much of his vision of a socialism built on self-governing companies was realised, stymied by depression and war. When the Social Democrats adopted a new programme in 1944, he sharply criticised its dilution of a socialist order. In 1946, he lost a vote [21] on the leadership by a small margin to the younger generation in the party, who set aside socialism in favour of a strong welfare state.

Nevertheless, here Möller's liberal scepticism of central government and the exercise of state authority prevailed. The health insurance system he launched would be administered by locally elected health insurance funds and unemployment insurance by trade union unemployment funds. In shaping financial support for small businesses in the '30s, Möller likewise entrusted regional business associations rather than the National Board for Commerce. Many more examples of his avoidance of the strong hand of bureaucratic state power could be cited.



A young boy from a migrant background walks behind the lectern of an AFS (Alternative for

Sweden) party leader during a rally of the far-right party to mark Workers' Day in Gävle, Sweden, on 1 May 2022. Photo: Jordi Borràs

Is there anything today that corresponds to the “Möller-Rosselli” union of liberalism and socialism? If by socialism one means that the power of capital ownership over production should be limited or even ended, then yes: in many countries, more and more companies are owned and/or controlled by those who work in them. [22] As the American economist David Ellerman has shown, [23] both Marxism and capitalism are founded on the wrongheaded idea that in a market economy capital ownership is what gives power in production: capital hires (that is, employs) labour and the capital owners control the business. But in a market economy employees can rent (that is, borrow) the capital needed by the company and then it is they who have power over production. It is thus not capital ownership *per se* that determines power relations within a company but how the “lease” between capital and labour is constructed -who hires whom or what. This contract theory of power upends both leftist and rightist thinking about power and capital.

It is astonishing that more than a century of social democratic thought has not confronted [24] the notion that the owners of “the means of production” have the right of command in the “relations of production”. Nationalisation, central planning and, in Sweden, the (failed) “wage-earner funds” [25] project have not challenged this principle on which capitalism is based: ownership of capital should give the owners - whether individual magnates, financial institutions, central planners or union leaders - the right of command in the production process. Indeed, this is a nice example of what Antonio Gramsci called bourgeois “hegemony”. [26]

A liberalism that was also socialist could have avoided the disastrous neoliberal diversion of the last four decades

Two of the most respected theorists of liberal democracy, Robert Dahl and John Rawls, have taken stances similar to Rosselli and Möller. In *John Rawls: Reticent Socialist*, [27] William Edmundson shows that in Rawls’ last writings his previous idea that “welfare capitalism” would be compatible with his famous ideas of social justice was no longer correct. Instead, he pointed to “liberal socialism” and/or “property owning democracy” as prerequisites. As for Dahl, in his 1989 book *Democracy and its Critics* he explicitly referred to Ellerman, arguing that there was no reason why liberals should refrain from pursuing democracy also within working life. [28]

Companies owned or managed by the employees through a democratic process have now been studied for four decades: [29] they do very well financially, they pay higher salaries and more of their employees are satisfied. They also counteract growing economic inequality by additionally giving employees a share of the return on capital, often in the form of higher pensions. [30]

Paradoxically, such companies are significantly more common [31] in the “super-capitalist” United States and conservatively controlled Britain than in social democratic Sweden. This is because of legislation allowing employees, via a foundation, to buy their company with its future profits as financial security. Employee stock ownership plans (ESOP) [32] thus do not require employees to risk any of their own money when they take over the company. In the US and also now in the UK, this process is facilitated by favourable tax rules and opportunities for government loans.

Interestingly, this economic democracy via workforce ownership is supported by Republicans as well as Democrats -a positive affirmation of Gramscian hegemony from the progressive side. Almost ten million employees now work in 7,000 such companies, of which more than 4,000 have the ESOP fund as majority owner. A similar policy [33] was introduced in the UK in 2014 and more than 500,000 employees now work in some 1,700 employee ownership businesses (EOBs). This type of “liberal socialism” appears more common in high-technology companies, where the most important asset is not capital provided by owners but rather the competence, creativity and engagement proffered by the employees.

Politically, liberal socialism differs from standard liberalism in that it takes economic inequality and economic democracy seriously. A liberalism that was also socialist could have avoided the disastrous neoliberal diversion [34] of the last four decades. However, it also differs from modern versions of social democracy in that it takes socialism -understood as the right of employees to govern their corporations- [35] seriously too. Such recognition by the socialist movement in its entirety a century ago would have prevented its hijacking by allying state power to the “one-man management” which Lenin espoused as avidly as the US advocate of “scientific management”, Frederick Taylor. Far from being an oxymoron, liberal socialism represents a synergy between the two great democratic and enlightenment political strands, for too long running on divergent tracks, to the detriment of both.

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