Social Democracy in the Global Periphery

*Social Democracy in the Global Periphery* focuses on social-democratic regimes in the developing world that have, to varying degrees, reconciled the needs of achieving growth through globalized markets with extensions of political, social, and economic rights. The authors show that opportunities exist to achieve significant social progress, despite a global economic order that favors core industrial countries. Their findings derive from a comparative analysis of four exemplary cases: Kerala (India), Costa Rica, Mauritius, and Chile (since 1990). Though unusual, the social and political conditions from which these developing-world social democracies arose are not unique; indeed, pragmatic and proactive social-democratic movements helped create these favorable conditions. The four exemplars have preserved or even improved their social achievements since neoliberalism emerged hegemonic in the 1980s. This demonstrates that certain social-democratic policies and practices – guided by a democratic developmental state – can enhance a national economy’s global competitiveness.

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This book, which emerged from a movable seminar, has received generous intellectual and financial support in the course of its travels. Our first two-day symposium at the University of Toronto’s Munk Centre for International Studies, in the winter of 2003, established a pattern: a public forum followed by a private all-day session involving the four authors. We would like to thank Professor Louis Pauly, the director of Toronto’s Centre for International Studies, for his consistent financial and personal support for this project.

Richard Sandbrook, a University of Toronto political scientist who has focused his research largely on the political economy of Africa and globalization, had enticed the other three authors to join this project during the summer of 2002. His aim, as he explains it, was to enlist the cooperation of talented area specialists with an interest in distributional issues and diverse disciplinary backgrounds. Judith Teichman is a political scientist at the University of Toronto who has long studied the politics of neoliberal reform in Chile and elsewhere in Latin America. Patrick Heller, a sociologist at Brown University, has written a well-received book on Kerala’s political economy of development. And Marc Edelman of Hunter College, City University of New York, has pursued extensive and broad-based anthropological studies of Costa Rica, especially concerning the role of peasants in globalization. Sandbrook’s three co-authors would like to acknowledge his leadership role, not only in inspiring this project but also in so effectively pushing it toward completion.

Although this team was well prepared to write an interdisciplinary and transcontinental comparative study, we realized that the process might not be easy. Would we get along? The first movable seminar in Toronto removed that concern; the authors could, indeed, cooperate and even gracefully concede points in heated debates. Other symposia followed, as the authors conducted further field research and resolved methodological and analytical disagreements. Our second two-day symposium, in November 2003 at the Watson Center for International Studies at Brown University, allowed us to gain valuable feedback from Brown’s renowned...
comparativist scholars. Professor Barbara Stallings not only generously provided the funding for this meeting through her Political Economy of Development program, but also contributed valuable ideas in our public seminar. Further symposia took place in Toronto in March 2004, Hunter College of the City University of New York in July 2004, and again at the Munk Centre, University of Toronto, in January 2005. Then the writing of the final draft proceeded in earnest.

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The authors have drawn heavily on the extensive research on Kerala, Costa Rica, Mauritius, and Chile of historians and social scientists who are nationals of the country they study. We wish not only to acknowledge this debt, but also to identify a peculiar interpretive problem to which this debt gives rise. Many of the Keralite, Costa Rican, Mauritian, and Chilean researchers upon whose work we build are, appropriately, social critics. They subject their own political leaders, institutions, and movements to withering criticism, based on an acute awareness of how the reality of their countries diverges from such ideals as equality, solidarity, and participatory democracy. We have certainly been influenced by these critics. Each of the cases we have studied, considered in its own terms, seems to have fallen short of its promise. However, viewed through a
comparative lens, the democratic and social achievements of these four cases stand out and demand an explanation. It is this comparative perspective that leads us sometimes to depart from the despairing tone of much contemporary scholarship.

We also wish to acknowledge our resourceful research assistants, all of whom made significant contributions to the final work. Richard Sandbrook wishes to recognize the fine research work carried out in Mauritius by Hansa Munbauhal in 2003–2004, while she was a Masters student at the University of Mauritius. Judith Teichman thanks Sandra Dughman, a political science and law student at the University of Chile, who helped with data collection in Chile during 2003–2004. Marc Edelman gratefully acknowledges the assistance of the staff at the documentation centers of the Instituto de Investigaciones Sociales, University of Costa Rica, and the Consejo Nacional para Investigaciones Científicas y Tecnológicas. And Patrick Heller expresses his appreciation to Rajesh M. Puliyara from the Centre for Development Studies in Trivandrum, who assisted with collecting data for this project.

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Part I

Introduction
1 Social democracy in the periphery

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

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

We arrive at two significant findings. First, the four exemplars cannot be dismissed as inexplicable, historical accidents. Though unusual, the social and political conditions from which these developing-world social democracies arise are not unique; indeed, pragmatic and proactive social-democratic movements help create these favorable conditions. Second, these cases have accommodated, but avoided capitulating to,

¹ For a similar viewpoint, refer to Evans 2005; Glatzer and Rueschemeyer 2005.
global neoliberalism (construed as pressures to liberalize markets, reform states, and open economies to cross-border flows of goods, services, and capital). The four exemplars have preserved or even improved their social achievements since neoliberalism emerged hegemonic in the 1980s. Certain social-democratic policies and practices – including the actions of a democratic developmental state – can enhance an economy’s global competitiveness.

**Context of the study**

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

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

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

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

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

- High and growing inequalities have accompanied market liberalization.3 World income inequality has likely been rising, a trend that is incontrovertible if China is removed from the calculation. Within countries, neoliberal policies have also been associated with growing inequality and poverty in most cases. Does growing inequality matter, if the proportion of the global population living in destitution falls? Yes, responds Robert Wade: “Inequality above a moderate level creates a kind of society that even crusty conservatives hate to live in, unsafe and unpleasant,” with higher crime and violence and lower levels of interpersonal trust (Wade 2004a, 582).

- Democracy itself is diluted and hollowed out. The scope of democratic decision making shrivels when national governments, through international agreements, surrender their power to regulate in the public interest in such areas as trade, financial flows, investment, and health and environmental standards, and when global financial markets effectively punish governments that deviate from conservative monetary, fiscal, and even social policies. In addition, growing social inequality and atomization lead to lower and less-effective popular participation, as cynicism regarding democratic institutions grows (see chapter 2).

- Market liberalization generates conditions in developing countries that are conducive to instability and conflict. Virtually the entire human population has been drawn into a growing dependence on markets. Where these markets are only lightly regulated, they subject people to rapid and sometimes devastating changes in fortune. Distributional shifts, new forms of economic insecurity, and external shocks demand

3 The literature on income distribution is voluminous and contentious, with different methodologies producing different findings. The following generalizations are supported by these careful studies: Berry and Serieux 2004; Cornia, Addison, and Kushi 2004; Wade 2004a; and Wade 2004b.
strong, coherent states to devise adaptive economic strategies, mediate domestic distributional disputes, and mount social protection. Yet these new tensions, combined with externally influenced austerity programs and anti-state ideologies, challenge the legitimacy and coherence of already weak states. The rise in grievances, coupled with increasingly ineffective and unpopular regimes, provides an opening for violent protest movements drawing on religious fundamentalism, ethnic chauvinism, or charismatic populism.4

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

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

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

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4 For an elaboration of this argument, see Sandbrook and Romano 2004.
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(and also an end) of equitable development. It is unclear how a growth-with-equity strategy can prevail in the face of entrenched and intransigent power elites. This volume, in contrast, emphasizes the politics of experiments in equitable and democratic development.

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

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

Yet Lula, like Cardoso, was constrained in achieving redistributive measures at the national level, especially by a recession in 2003, which reinforced the imperative of attracting private investment and retaining the International Monetary Fund’s (IMF) support. Hence, his early response was to combine an orthodox monetary and fiscal policy with limited improvements in pensions and welfare payments and little in the way of land reform. Achieving social reform in a country that is both highly
dependent on foreign investment and immensely inegalitarian\textsuperscript{6} is fraught with difficulties; nonetheless, we shall contend later that the Workers Party is changing the face of Brazilian politics.

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

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

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

\textsuperscript{6} In Brazil, the top 10 percent of the population earns half the nation’s income; 1.7 percent of landowners own nearly half of the arable land (\textit{New York Times Magazine} [June 27, 2004], 33).

\textsuperscript{7} This utopian model is assessed in chapter 9.