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Abstract

Two decades ago many commentators suggested that economic globalisation had eroded social democratic economic policy capacity. Although this argument has largely been discredited, the global financial crisis (GFC) has revived the state-market debate. As governments succumb to fiscal consolidation, a similar theory of declining state capacity now challenges social democrats. This article redresses the contemporary situation by using the economic globalisation debate from the mid-1990s to 2005 as a lens through which to comparatively analyse the current fiscal policy positions of the Parti Socialiste and the Labour Party. It draws similarities between the two situations and illustrates how contested notions of the contemporary political economy constrain social democratic fiscal policy capacity, suggesting that greater capacity exists than is currently acknowledged.

Keywords: social democracy, globalisation, global financial crisis, austerity, Labour, Parti Socialiste, fiscal policy

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Introduction

By the 1990s, after almost two decades of financial deregulation in the developed economies, many commentators from across the political spectrum understood economic globalisation to be a growing and inescapable force of modern capitalism (see Gray 1996; 1997; Giddens 1998; Kurzer 1993; Moses 1994). Globalisation was seen to cut markets free from the traditional regulatory mechanisms of states and, in doing so, heighten the influence of markets, which favour liberal economic policies, at the expense of sovereign policy autonomy. The dilemma therein, as far as this article is concerned, is, as Kurzer neatly surmised, that this 'hurts social democratic governments more than conservative ones' (Kurzer 1993: 252; see Moses 1994). The inherent aim of social democracy, to regulate capitalism for the benefit of working people, was thus being rendered unachievable by the power of these new global markets (see Gray 1996; 1997; Huber and Stephens 1998; Kurzer 1993; Moses 1994).

Although since the mid-1990s a substantive literature has ably dismantled this thesis of neoliberal convergence, it could be argued that today, in post-global financial crisis (GFC) Europe, a similar theory of the state-market dynamic continues to hold sway. A substantial element of the discourse which has emerged since 2008 presents a confused understanding of the nature of the crisis in Europe, often positing government expenditure as a central *cause* of the crisis situation (Blyth 2013a: 6; Hay 2013; Sawyer 2012: 209). European governments are currently attempting to slash their public debt burdens and prove their economic credibility by implementing large-scale fiscal consolidation programmes. This strategy, some have suggested, is characteristic of a state of permanent austerity now imposed by markets (see Streeck 2011; Streeck and Mertens 2011). This reading of the crises reinforces the idea, once again, that the role of the state is necessarily diminished in the face of exogenous market forces. The adage that 'there is no alternative', therefore, continues to hold great relevance in post-crisis Europe. Revisiting these themes in the post-crisis environment, as this article does, is therefore critical to understanding the governing capacities of not only European social democrats, but the very states in which they operate.

In rejecting dominant accounts of the crisis, this article draws upon analyses that have helped to demonstrate that, despite the 'crisis of debt discourse' which abounds, the Eurozone crisis is best understood as the fallout from the crisis of particular liberal growth models (see Callinicos 2012; Hay 2013; Hay and Wincott 2012; Sawyer 2012). This article hopes to add to this post-crisis literature by using the economic globalisation debate, from the early 1990s up until the mid-2000s, as a lens through which to appreciate how social democrats today engage with economic arguments presented as *de facto* structural dilemmas, but which, in reality, are contested notions of political economic space. In doing so it supports the argument that greater economic policy capacity remains in post-GFC Europe, but suggests that first social democrats must set out a clear and assertive direction for change.

In order to test the study's central hypothesis, that social democratic economic policy capacity has been constrained by the accommodation of contestable economic ideas as *de facto* structural conditions, the study utilises a comparative analysis of France's Parti Socialiste (PS) and the British Labour Party. The analysis is divided into two separate periods; the first begins in 1997 as both parties form governments and ends in the mid-2000s, as the PS lose power and Labour begin their third term in office. The latter analysis looks at the PS and Labour in the post-GFC environment, as constituted under François Hollande and Ed Miliband respectively, and considers how the PS have engaged with the debate over economic policy autonomy in government and how Labour have adapted in opposition. By comparing the French *dirigiste* model to the British liberal-market variant, a significant variation in social democratic models will be considered (Gerring 2006: 89, 97-100), allowing at least a degree of wider significance for European social democracy to be gleaned from its conclusions. Both cases are profiled using party output, including speeches made to both domestic and international audiences, party documents and other relevant publications, as a means of establishing the two parties' economic strategies.

In defining social democracy, the article utilises a 'value-led' approach, rather than focusing on specific institutions or policies. It draws on Hirst's (1999: 87) concept of the three 'essential and enduring' elements of social democracy, which posits that social democracy attempts to minimise of the 'cost of capitalism' through employment and welfare policies, reduce inequalities of power and wealth, and that it does so within a parliamentary democracy and market economy. The study adds to this definition, moreover, by drawing upon Hay's concept of 'democratic economic governance', described as 'the principle that the market, left to its own devices, can only generate outcomes which are inefficient, inequitable and unacceptable' (Hay 1999: 57). Thus, an inherent degree of scepticism towards the market is embedded in the definition of social democracy set out here. Furthermore, the analysis of 'fiscal policy' within this article considers, more narrowly, aspects of fiscal policy, including welfare, job creation, healthcare spending and house building, that may be broadly understood as representative of these 'social democratic' values. Due to space limitations the study is, moreover, restricted to a focus on the impact financial markets, in particular bond and equity markets, have had (at least theoretically) on the fiscal policies of the two parties. Finance has been selected because of its relevance both within the post-crisis discourse, as well as the economic globalisation debate in the decade prior to the crisis.

It is pertinent here to also establish what this article is *not* attempting to do. The study is not seeking, nor would it be possible, to refute per se arguments that support austerity as an economic recovery strategy, or indeed the thesis of economic globalisation and capital mobility. Rather, this article merely intends to highlight that both theses remain, in fact, highly contested. In doing so, the article attempts to illustrate the contingent nature of the perceived fiscal capacities of the PS and Labour, and thus demonstrate that a greater policy capacity exists beyond that which is currently acknowledged. The article is structured into three main sections; in the first the debate is set up through a review of the relevant existing literature. The second section presents an analysis of the two cases pre-crisis, focusing on the economic globalisation debate, whilst the third section considers the contemporary impact of post-crisis discourse on social democratic fiscal activism, before setting out a short discussion of the ongoing potential for social democratic economic policy autonomy.

European Social Democracy: Pessimism, Pragmatism and Scepticism

The relationship between markets, states and European social democracy has already been widely discussed. The debate remains absolutely critical, however, because, as will be shown, if some theories were taken at face value, social democracy would have been considered obsolete three decades ago, with neoliberal reform the only path open to policy-makers. As this review of the literature also shows, the GFC represented a critical juncture in the debate over the role of the state. Yet, despite initial optimism, the outlook for social democrats in post-crisis Europe is bleak. Below, three discernible 'waves' of scholarship of particular relevance to this study are outlined.

First wave: globalists

The first distinct wave of literature, which was particularly influential in the 1990s, can be characterised by its focus on economic globalisation as the cause of social democracy's apparent demise. Economic globalisation, it was argued, had become an inexorable force of the modern age, a force to which all economies must ultimately either choose to adapt to, or lose out (see Kurzer 1993: 252; Giddens 1998). This process, as understood by such authors, allowed capital to become increasingly internationally mobile, and thus 'outgrow' sovereign economic regulation and policy instruments (Kurzer 1993: 251 Gray 1996: 32; Gray 1997; Ohmae 1990; 1996). John Gray's claim that it is 'no exaggeration to say that the global freedom of capital…effectively demolishes the economic foundations of social democracy' (Gray 1996: 17), captures the essence of the globalist argument.

Enormous figures of international financial capital movement are often invoked in these works which, it is suggested, has 'made every high-spending government vulnerable to financial asset holders' (Perraton *et al.* 1997: 265; Giddens 1998: 30; Kurzer 1993: 252). This vulnerability is theorised in terms of the 'structural dependency' of the state on capital (see Przeworski and Wallerstein 1988; see Kurzer 1993: 252; Moses 1994). If markets do not agree with a particular economic policy, the argument goes, they can punish a state by quickly moving capital out of an economy. Traditional social democratic policy tools designed to regulate capitalism, therefore, may have worked in conditions where 'control of capital was both possible and desirable', but have since been rendered impotent by economic globalisation (Moses 1994: 133; see Giddens 1998: 16). Kurzer (1993: 252), for instance, argues that government proposals to increase public investment, which heighten expectations of a rise in inflation, 'motivate financial asset holders to invest in other, more stable currencies'. Progressive employment and welfare policies, therefore, whilst desirable, can be quickly 'interdicted by global bond markets', making them no longer politically sustainable (Gray 1997: 23-28), and thus disproportionately hurt social democrats. This, Moses suggested in 1994, was the new '*iron law* of policy' in the international economy (Moses 1994: 142).

Second wave: optimists and sceptics

In response to this globalist literature a second wave of literature, which developed from the mid-1990s, sought to challenge the claim economic globalisation had caused the death of social democracy. Within this second wave, two separate schools of thoughts can be distinguished. The first group of theorists are characterised by the claim that economic globalisation, although a powerful constraining influence on states, has not necessarily enforced conditions of neoliberal homogeneity, and thus social democrats retain 'room to manoeuvre' in a globalised economy (see Clift 2002a; 2002b; Clift and Tomlinson 2004; 2007; Garrett 1998a; 1998b; Merkel and Petring 2007; Pontusson 2011; Swank 2002). Garrett finds, for example, that the policy strictures imposed by global capital are 'not nearly so tight as is often presumed'. He points to the high levels of public debt in both Belgium and Italy, and shows how interest rates on their respective government bonds remained stable and relatively low over the previous decade (1998a: 801-3). Garrett (1998a: 804) suggests that, 'if this is the most brutal fiscal repression wrought by global finance among the industrial countries, the proclamations of many commentators would seem somewhat hyperbolic'.

Yet, whilst Garrett made clear that his intention was 'not to debate the merits of calling markets "global"' (Garrett 1998b: 791, emphasis added), a second cluster of authors sought to move away from the established structural focus within the literature on economic 'globalisation' altogether. This more sceptical group of theorists have presented strong empirical research to show that economic globalisation is not occurring, or at least is not occurring in the way many expect (see Hirst and Thompson 1999; Hay 2000; 2004a; Hay and Wincott 2012; Kleinknecht and ter Wengel 1998; Vandenbroucke 1998). These authors have highlighted, for example, the fact that the European Union could more accurately be described as a 'closed economy' (Kleinknecht and ter Wengel 1998: 638) than one experiencing ‘globalisation’. This, in turn, has significant implications for the capacities of governments because, in contrast to the ‘race to the bottom’ predicted by globalists, in a regional economy such as the EU, competition may not solely be based on cost (Hay and Wincott 2012: 92). Thus social democratic economic policies, such as a strong welfare state, are not crippled by economic integration, and can even act to enhance an economy’s attractiveness to trade and investment (Kleinknecht and ter Wengel 1998: 645-6; Pontusson 2011).

What emerges very clearly from this second wave literature (leaving aside the disagreements therein) is that economic globalisation is by no means an incontrovertible phenomenon. However its presence in both historic and contemporary economic policy debates is manifest. Of great importance to this study, therefore, is the incorporation of analyses of how political actors continue to engage with the *idea* of economic globalisation within this second wave literature (Hay and Rosamond 2002; see Hay 2000; Rosamond 2003; Watson 2001). As Hay and Rosamond noted (2002: 148), ‘whether the globalization thesis is “true” or not may matter far less than whether it is *deemed* to be true (or, quite possibly, just useful) by those employing it’. This point captures the salience of employing an ideational analysis (see Campbell 1998; Clift 2012; Hay 2004a; 2004b; Hay and Rosamond 2002; Schmidt 2008) to elucidate the significant implications that engaging with the economic globalisation theory has had for social democrats. In turn, this article then attempts to show how this framework of analysis offers a valuable new insight into the study of post-crisis European social democracy.

Third wave: post-crisis literature

The GFC and the subsequent crisis in Europe have, of course, served to reignite and reshape the debate over the relationship between states, markets and social democratic policy potentialities. A survey of the post-crisis literature reveals a great deal of valuable research on both the causes of the crisis and its consequences for social democracy, which will be briefly covered here. As many authors have shown, it is clear that there were significant failings in the neoliberal financial regulatory system in the years leading up to 2008 (Hay 2013; Laski and Podkaminer 2012; Mügge 2011). A greater reliance on the financial sector for economic growth, particularly in the US and UK, via debt-fuelled private consumption and new financial products had a significant impact on the culture and politics of economic growth. The 'financialization' (see Epstein 2005: 3) of developed economies ultimately placed 'more aspects of economic and social life at the risk of volatility from financial instability' (FESSUD 2011: 11; see also Dore 2008; Foster 2007; Magdoff and Sweezy 1972: 13-16). The bursting of the US subprime mortgage bubble, the epitome of this volatile growth model, had a devastating effect on financial systems around the world. Yet, despite these liberal regulatory failings, the GFC was not a springboard for a renewal of social democratic policy activism (Crouch 2013), as may have reasonably been predicted.

The initial policy response to the GFC has been described as boldly Keynesian, as states bailed out their domestic banks and key sectors of industry (Callinicos 2012: 66). Yet, within twelve months the policy paradigm had altered fundamentally, with 'expansionary fiscal consolidation' established as the primary recovery strategy in Europe (see Blyth 2013a; Callinicos 2012; Grimshaw and Rubery 2012; King *et al.* 2012). This strategy of large reductions in government expenditure, it is suggested, may result in growth through increased private consumption, as a result of altered market perceptions of the state's economic competency (see Giavazzi and Pagano 1990). This argument was given significant empirical support in the post-crisis environment as a result of the findings of Reinhart and Rogoff's influential paper (2010), which found that countries with over 90 percent debt-to-GDP experience significantly reduced rates of growth (2010: 277).

It is this new economic environment that, according to some, has restricted the ability of states to exert significant influence over economic policy. Streeck, for example, suggests that the GFC and subsequent crisis in Europe have led to a ‘profound restructuring of the democratic-capitalist political economy’ (2014: 144). All governments are now, he argues, in the stranglehold of international markets, as now all political parties ‘must be publicly pledged to “sound finance”, or else the cost of debt service will rise’ (2011: 25-27; Streeck and Mertens 2011). Ultimately, Streeck suggests, governments must conform to market-appeasing economic policies, such as austerity, or else they will be punished. This argument provides an important juncture, for it captures a shared common theoretical lineage between contemporary political debates over the capacity of the state in economic recovery strategies and globalist arguments found within the first wave literature of the 1990s. It asserts, once again, that the exogenous influence of the market has wrestled economic policy autonomy away from state actors.

In challenging this claim, this article draws upon further analyses within this third wave which have sought to reassess the causes of, and responses to, the GFC and Eurozone crisis (see Blyth 2013a; Boyer 2012; Callinicos 2012; Hay 2013; Hay and Wincott 2012; Sawyer 2012). Indeed, as Boyer (2012: 284) has illustrated, a shift in the debate moved focus away from the regulatory weaknesses in the financial sector and towards the perception that lax public spending policies brought about the European crisis *per se*. As authors within this third wave of literature have shown, austerity measures have been constructed in an environment in which the perceived fiscal recklessness of governments in the years preceding the crisis is at the heart of the dominant discourse (see Blyth 2013a; Hay 2013: 24; King *et al.* 2012: 2).

The chronology of this narrative of public debt, which has given rise to austerity policies, is, however, deeply problematic. As has been clearly illustrated elsewhere in the literature, sovereign debt only became a significant problem for European states *after* the impact of the private-sector financial crisis, as governments bailed out their domestic banks and other important faltering sectors (see Blyth 2013a; Hay 2013). The narrative that has emerged since 2010, therefore, which focuses on debt as the cause of the crisis rather than a consequence of an originating financial crisis, 'confuses correlation and causation' (Blyth 2013a: 70-73; see Hay 2013: 24). As Hay shows (2013), this is a greatly important distinction because a more appropriate discourse, which considers the crisis of the liberal finance-led growth model, would generate a vastly divergent policy paradigm. Significantly also the evidence supporting austerity as an effective tool for crisis recovery is negligible. Despite its enormous political influence, Reinhart and Rogoff's study (2010) was found to contain significant data errors and sample omissions which warped its findings, with a review paper proving that countries with over 90 percent debt-to-GDP actually experience average growth rates of around 2.2 percent (Herndon *et al.* 2014). Furthermore, recent studies, including the IMF's World Economic Outlook report (Leigh *et al.* 2010), have highlighted the scarcity of evidence to support the expansionary fiscal consolidation thesis (see also Blyth 2013b).

This article hopes to build upon this work and add to the post-crisis literature by developing our understanding of how such debates shape the economic policy strategies of social democrats in France and the UK. To do so it develops an analysis of the association between the globalisation debate and contemporary post-crisis discourse, something that has not yet been so clearly delineated in the post-crisis literature, as a means of reframing the contemporary debate over social democratic fiscal capacity. The following section, therefore, begins this analytical process by setting out the cases of Labour and the PS during the period 1997-2005 in the context of the economic globalisation debate.

Social Democrats and Economic Globalisation

As outlined above, this section will set out an analysis of the Labour Party and the PS in relation to their engagement with the theory of economic globalisation. In particular, it will portray how both parties' interacted with ideas surrounding the global financial markets and what effect these understandings had on their fiscal policies whilst in government.

New Labour

New Labour under Tony Blair and Gordon Brown understood globalisation to be an inexorable force of the modern age that must be adapted to. Drawing on the Third Way ideology (see Giddens 1994; 1998), Blair suggested in 1998 that there were three responses to the inevitable challenge of economic globalisation, 'resist change - futile; let it happen - laissez-faire - each person for themselves, each country for itself; or, the third way, we manage change, together' (Blair 1998a). Even in the latter stages of Blair's tenure Labour's stance on economic globalisation was fixed, with Blair declaring that there was 'no mystery about what works: an open, liberal economy, prepared constantly to change to remain competitive' (Blair 2005).

New Labour's rhetoric on the financial markets consistently highlighted the unavoidable power of exogenous market forces over the capacities of sovereign policy makers. 'We live in a completely new world. Every day about one trillion dollars moves across the foreign exchanges… If the markets don't like your policies they will punish you', Blair repeated (Blair 1999a; 1999b), echoing the warnings of 'structural dependency' theorists found in the first wave literature (see Przeworski and Wallerstein 1988). This forced New Labour to accommodate the preferences of the market, therefore, as its *primary* concern. Echoing globalist policy prescriptions, Labour asserted their economic discipline by 'depoliticising' monetary policy through making independent the Bank of England, and publically declaring that they were ready 'to achieve our priorities in a new and changing global market place' (Brown 1997; 1999).

Credibility and stability were outlined as the pillars of Labour's macroeconomic policy, with Balls suggesting that these principles 'flow logically from changes in the world economy … over the past twenty or thirty years' (Balls 1998: 117). The Labour Party understood, Balls (1998: 124) made clear, 'in a world of rapidly mobile capital, governments can have policy credibility and maintain constrained policy discretion if they pursue, and are seen to be pursuing, monetary and fiscal policies which are well understood and sustainable over the long term'. Labour sought, therefore, to repeatedly reaffirm its credibility to the financial markets, portraying the party as both *responsive* and *responsible*, as seen in Brown's constant reminders that New Labour were the '*credible radicals* for the 21st century' (Brown 1999, emphasis added; see Brown 1997; Brown 1998).

The implications that this reading of the global financial order had for Labour's fiscal policies are clear. Labour's welfare policy, for instance, is indicative of the party's desire to prove its fiscal responsibility to the markets, driven by an internalisation of the theory of 'structural dependency'. One key aspect of New Labour's welfare approach was centred on 'making work pay more than benefit' as a means of reducing welfare expenditure. The party suggested that underlying this 'welfare-to-work' regime was the 'challenge of modern employment' in the global economy (Blair 1998a; 1998b: 9; 2005; 2006; Brown 2004; 2006). This strategy included introducing a national minimum wage in 1998 and Working Families Tax Credit, later replaced and extended with Child and Working Tax Credits, to 'top up' the take-home pay of low-wage families. Such policies allowed the Labour government to exert greater control over the transfer benefits to selected groups such as low-income families, thereby ensuring 'sound public finances' (Merkel and Petring 2007: 132-4). Closely related to this policy was the ‘New Deal’, offered at first to young unemployed people, and later other groups with high rates of unemployment. The ‘New Deal’ workfare programme offered those eligible several choices for skills training or work placements, yet no option to remain on unemployment benefit (Glyn and Wood 2001: 53; Schröter 2004: 20). Moreover, its later movement towards ‘asset-based welfare’, encouraged individuals to ‘think of themselves first and foremost as active saver-investors’, rather than as passive recipients of state welfare (Watson 2009: 3).

Labour hoped, therefore, to project an image to global financial markets of both an efficient state and citizenry. Whilst the party may have claimed that it was pursuing a longer-term strategy enabled by fiscal discipline early on (Clift and Tomlinson 2007), it is clear that Labour ultimately remained keen to prune back, in particular, welfare expenditure. For example, spending on housing and healthcare remained relatively consistent with 1996-97 levels during 1997-2001, and rose in line with overall spending on services in Labour’s second term. However, expenditure on social protection was cut immediately from 13.4% of GDP in 1997-8 to 12.8% by the following year, and did not rise above 13.4% of GDP again until 2008-09, when the consequences of the GFC were being felt (adapted from H.M. Treasury 2014: table 8b). Although not a drastic cutback, when it is considered that social protection expenditure under the Conservative government in the five years before 1997 averaged 14.2% of GDP (authors calculations from H.M. Treasury 2014: table 8b), Labour’s strategy of targeting welfare spending becomes clear. As Wickham-Jones has noted, it seems New Labour was ‘determined to secure business confidence, *regardless* of the costs for their social democratic beliefs’ (1997: 264, emphasis added; see Leggett 2005: 555).

The Parti Socialiste

Unlike the rigidly market-orientated New Labour, the PS during Lionel Jospin's tenure as Prime Minister retained a strong statist ideology (Merkel 2000), rejecting the *pensée unique* and 'competitive disinflation' policies which characterised Mitterrand's presidency after his 1983 'U-turn' (see Jospin 1995; Clift 1998; 2002a; 2002b; 2005). The party was able to retain a more critical perception of globalisation, aided by a more widespread anti-globalisation narrative within French politics (Hay and Rosamond 2002: 153) than that found in Britain after 18 years of Conservative governments 'ideologically committed to neo-liberal reform' (Callaghan and Tunney 2000: 71; Schmidt 2001: 247). Jospin's *Réalisme de Gauche* fits more closely in line with the second wave theorists, for whilst acknowledging economic globalisation as a new 'international reality' (Jospin 2002), the party underlined the enduring '*marges de manœuvre'* available to social democratic policy-makers (Moscovici 1997 cited in Clift 1999: 5; see Clift 2002a; 2005). For Jospin's PS, globalisation was a 'political question, which requires a political response' (Jospin 2001a).

One aspect of the PS's 'political response' came in the form of European Union level activism, building on Jacques Delors' idea of '*l'Europe Sociale*' (see Delors 1993; Josselin 2002; Jospin 2001b; 2002; Jean Le Garrec interview in Clift 1999: 16). Yet, despite the tangible fiscal constraints brought about by deeper EU integration (see Cole 1999: 79; Clift and Tomlinson 2004: 521; Hay 2004a: 232), including the Stability and Growth Pact (SGP), the PS remained keen to stress that, even without such a treaty, the heightened global mobility of capital now requires every government to 'convince the markets or investors' of their credibility (Moscovici cited in Clift 1999: 17). The party's understanding of heightened capital mobility compelled it, therefore, to operate within the perceived margins of economic manoeuvrability 'gained by perceived overall rectitude' (Moscovici cited in Clift 1999: 5), and thus not act to undermine credibility in the eyes of financial markets.

This adherence to a norm of 'overall rectitude' is clearly reflected within the party's fiscal policies. For example, a significant reform of the healthcare system, the *Couverture Maladie Universelle* (CMU) policy, provided supplementary healthcare insurance to an estimated 6 million disadvantaged French citizens free of charge on a means-tested basis (Clift 2002b: 332; Levy 2001: 275-6). Moreover, like New Labour, a key aspect of the PS's welfare strategy was reducing youth unemployment. Yet, unlike Labour's 'workfare' New Deal programme, The *Programme Emploi Jeunes* (PEJ), or the Aubry Plan, funded (up to around 80%) 700,000 new jobs, half of which were to be within the public sector, to tackle unemployment (Merkel 2000: 29). The PEJ provided state subsidies for employment for up to five years for young unemployed people with little work experience (Levy 2001: 276). Though undoubtedly bold, and unlike anything New Labour may have pursued during this period, it should be recognised that these policies were seen as achievable only within a credible fiscal framework.

Though both the CMU and the PEJ came at significant cost, the policies were largely funded through 'cost shuffling', rather than large increases in expenditure that might concern the markets (Levy 2001: 275). The reforms cleverly channelled resources 'to a select few, highly visible, progressive projects' (Levy 2001: 275), but ultimately Jospin remained cautious to respect Maastricht convergence criteria. The government, for example, cut the budget deficit to meet the SGP's 3 percent target and reversed the trend of rising public debt by 1998, ensuring that it did not exceed the 60 percent of GDP threshold (OECD 1999: 11; OECD 2001: 48, Figure 12). Whilst the PS rejected the exacting neoliberal policy framework prescribed by globalists, their understanding of the need to make explicit their fiscal discipline to global financial markets forced them into accepting a fiscal 'limit' of sorts.

Analysis

The above section has attempted to illustrate how the fiscal policies of Labour and the PS were shaped by their respective interpretations of the global financial order. Labour, operating within a more highly liberalised political economy post-Thatcher, followed a globalist reading and were quick to establish a clear message and strategy of fiscal discipline. The PS, however, were able to draw upon a wide dissatisfaction with neoliberalism and expressed a more politicised understanding of the impact of globalising markets. This allowed them to implement more ambitious fiscal policy, albeit within a broader framework of perceived economic rectitude. This very difference is, in itself, telling; it clearly shows how two social democratic parties in otherwise ostensibly similar circumstances constructed different readings of how financial globalisation compelled them to act fiscally. Building upon this, it is clear from the review of the existing literature that the impact of financial globalisation on state capacity remains a hotly contested area of discussion.

The first wave literature referenced the enormous quantities of 'disconnected capital' which exerts downward pressure on fiscal policies, resulting in a 'race to the bottom'. However, later works within the second wave helped to show the weaknesses in the argument that financial globalisation has necessitated neoliberal convergence, and even illustrated that financial integration may not be developing in the way expected under the globalisation thesis. By looking a little more closely at the bond and equity markets in these two cases, it is possible to explore the relationship between the economic arguments put forward by Labour and the PS and the reality of British and French financial integration in global markets.

It is manifest that financial markets have grown exponentially in the last few decades, and the data on bond and equity markets confirms this. Engelen and Konings (2010), in a comparative study of financialization that includes both the UK and France, find significant evidence of the growth of financial markets. They show that the size of the global bond market increased almost fourfold between 1990 and 2006, whilst equity markets increased tenfold in this time (Engelen and Konings 2010: 2). Moreover, they note that in 2008 these markets accounted for over 250 percent of GDP in both the UK and France (Figure 21.1 in Engelen and Konings 2010: 7). Such figures, which point to the growing financialization of European economies, appear to confirm the theories of globalists that highlight the impact of capital mobility. Yet, a consideration of the character of these markets presents a more confusing picture than would be expected under conditions of globalisation.

Evidence from the 1980s and 1990s suggested that markets for bond and equity portfolio investments expressed a clear 'home bias' (see French and Poterba 1991; see Feldstein and Horioka 1980; Tesar and Werner 1995). Yet, despite French and Poterba suggesting in 1991 that the 'puzzle' of home bias within financial investment may recede and the levels of cross-border equity investments grow (in line with globalisation theory) (French and Poterba 1991: 225), a decade later, in 2003, it was still not possible to claim this. The data shows clearly that institutional investors in both the UK and France were still investing heavily in their domestic and the Eurozone economies. In the UK, for example, 77.8% of investors' equity portfolios were held in the UK and Eurozone, whilst for France this figure stood at 87.2%. Moreover, UK and French investors' bond portfolio allocations show even stronger regional investment tendencies, with investment rates into the UK and Eurozone at 78.5% and 90.8% of total investments respectively (adapted from Tables 3.1a and 3.1b in Hay and Wincott 2012: 87). Rather than a global enmeshment of bond and equity markets, the data shows a much greater level of regional financial integration, or indeed, 'Europeanisation' (Kleinknecht and ter Wengel 1998; Vandenbroucke 1998), if perhaps also some level of 'Triadisation' (Hay and Wincott 2012: 86; see Hirst and Thompson 1996; 1999) evident in the British economy. It is possible, therefore, to account for a significant proportion of this capital movement in terms of financial ‘churn’ within the European regional economy (Hirst 1999: 86).

It is salient to note immediately, therefore, the disparity that has emerged in this analysis between the presentation of financial integration by Labour and the PS and the actual character of bond and equity investments. This disparity is particularly clear in the case of Labour, who, as detailed above, presented an extremely assured picture of financial globalisation. Although the PS did not follow this thesis precisely, their acceptance of the fiscal limitations placed upon them by EU-level directives was a product of their understanding of globally integrated financial markets. When the willingness of investors to hold their capital within their domestic and regional economies is considered, it becomes clear that the calibration of social democratic fiscal policies in line with the theory of near perfect capital mobility under conditions of globalisation was somewhat zealous. Indeed, making the distinction between a truly global economy and simply a more regionally, or indeed internationally, integrated economy is so important because, as has already been explored by others within the literature, there can be differential expectations for governmental capacity under these two conditions.

As Hirst and Thompson (1999: 10) suggested, in a truly global economy, domestic economies would be expected to become ‘subsumed’, but within an international economy states could be expected to retain a much greater degree of autonomy. Moreover, rather than the ‘race to the bottom’ which may be expected within the globalisation thesis, a regional European economy may be more accurately characterised by diverse and significant state involvement in the economy. It is clear, for example, that there are factors beyond ‘cost competitiveness’, such as the specialisation of skills and suppliers, that provide incentives for business to invest in ‘high-cost’ markets, such as those in Britain and France and Europe more generally (see Kleinknecht and ter Wengel 1998: 645-6; Callaghan and Tunney 2000: 70; see Hay 2012 criticism of ‘cost competitiveness’). This argument is also particularly well reflected in the high geographical concentration of research and development by major corporations who rely on markets providing consistently high levels of workforce education and discipline, as well as a strong legal infrastructure (see Patel 1995; Patel and Pavitt 1996; Hirst 1997: 419). The Nordic economies, for instance, which historically have had extremely high levels of public investment in education and training, were seen to reap the benefits of this government expenditure in the 1990s and 2000s (Pontusson 2011: 100-107).

The domestic and regional bias found within the financial markets belies the warnings of rapid footloose capital, which may be expected in truly globally integrated markets. Moreover, public investment levels in Europe can clearly form part of an economy’s investment attractiveness. This is not to say that there are no structural pressures emanating from financial integration that apply downward pressure on states, and by extension, social democrats, or that these pressures cannot develop. However, this section has attempted, more narrowly, to demonstrate that both Labour and the PS assembled particular approaches to fiscal policy which reflected their perception of global financial markets, which ultimately served to delimit their fiscal activism. What the analysis of bond and equity markets shows, when coupled with the differences in the two parties’ interpretations of economic globalisation, is the contingency of the policy paradigms formed within each political economy.

This section has not sought to explain *why* social democrats may come to engage with economic arguments in this way (although see Hirst and Thompson 1996: 6; Hay and Rosamond 2002 for debate on this), it has merely hoped to show that both social democratic parties framed their fiscal strategies in line with their perceptions of global financial market integration (see Hay and Rosamond 2002; Dearlove 2000: 114). Put more simply, it shows that 'concepts have consequences' (Hirst 1997: 424; see Gill 1994). The following section, therefore, seeks to apply this framework of analysis to the contemporary post-GFC situation. It does so in order to discover the dynamics of each party's contemporary relationships with conceptualisations of the financial markets and the impact that these have on their fiscal activism.

A 'Crisis', but Not for Social Democracy

The findings already detailed in this article confirm Hay and Rosamond's (2002) sentiment that globalisation was an important ideational constraint; yet, as the following section shows, it appears that a similar statement could be made today about the dominant discourse which surrounds the GFC and subsequent Eurozone crisis. As the review of the literature has shown, the financial crisis of 2008 did initially spark a neo-Keynesian revival of sorts, as the US and governments across Europe engaged in co-ordinated fiscal stimulus and injected liquidity into markets by bailing out struggling banks and industries. Yet, some six years on, as austerity policies dominate crisis recovery management strategies in Europe, it is clear that, in the longer term, social democrats were not able to successfully 'seize the coat-tails' of the crisis. As the preceding section did with the global financial markets and capital flight, this section will explore how each party has engaged with key economic arguments surrounding recovery management in the post-crisis context, and what effect this has had upon their fiscal policies. It does so by firstly taking a succinct look at the nature and causes of the Eurozone crisis and the stark disagreements therein. It then presents each case in terms of the post-crisis situation before setting out its analysis, including a brief consideration of social democratic fiscal potential in the contemporary context.

The crisis context

In order to comprehend the policy regimes of the PS and Labour it is first important to consider the context in which they have been constructed. Despite the GFC originating from a speculative bubble of private credit on the balance sheets of the banking sector, the source of the crisis soon became obscured. Within months of Greece's recognition in 2010 that its public deficit was far larger than it had previously suggested, the perception that lax public spending policies brought about the European crisis *per se* came to dominate the debate and began to be used to justify programmes of fiscal consolidation (Boyer 2012: 284; Blyth 2013a; King *et al.* 2012: 2). This interpretation misconstrues the nature of the crisis in Europe. Indeed, the majority of European governments in the years previous to the crisis (with the exception of Greece) were 'consistently reducing public debt/GDP ratios, lowering the deficit/GDP ratios or generating handsome surpluses' (Laski and Podkaminer 2012: 254). The large public debt burdens faced by many European states today are the products of the crisis, not its cause. The current situation is, more accurately, attributable to two related underlying growth problems in Europe.

Firstly, it should be recognised that the crisis impacted first and most severely upon those economies, such as the UK, Spain and Ireland, whose private debt-led growth tied their fortunes too intimately to interest rates. These economies not only felt the contagion effects associated with their exposure to the US sub-prime mortgage crisis, but experienced their own crises as their domestic housing and consumer bubbles burst as a result of rising interest rates (see Hay and Wincott 2012: 200-4). Additionally, in the years previous to the crisis, the Economic and Monetary Union's 'one-size-fits-all' accession criteria, which enforces conditions of low inflation, exchange rate stability and low public deficit and debt, led to the deterioration of competitiveness in many Southern economies including Italy, Portugal and

Greece (Boyer 2012: 290; Laski and Podkaminer 2012; Petit 2012). Both of these situations are resultant not from governmental profligacy, but from the failings of regulatory liberalism (Mügge 2011), both within EU architecture and national growth models, which permitted systemic fragility and volatility. Mainstream liberal economic thinking was not able, therefore, to anticipate the present crisis and even served to induce it (Boyer 2013; Hay 2013; Mügge 2011; Ryner 2012). The following sections seek to set out how both parties have constructed their fiscal policies within this post-crisis political economic environment.

The Parti Socialiste

In May 2012 the French electorate voted for its second Socialist President of the Fifth Republic, carrying François Hollande into the Élysée Palace. Hollande was elected on a platform that rejected the incumbent Sarkozy's programme, as well as his manner of governing (see Hewlett 2012), with Hollande's call for '*le changement*' seeking to halt austerity and instead concentrate upon a growth-orientated strategy for crisis management through reviving employment and industrial production (Hollande 2012). The party has, however, been relatively limited in its pledges of fiscal activism. Hollande has pledged to build 2.5 million houses over the five years, an increase of 300,000 on Sarkozy's tenure, and committed to large-scale public investment for public-sector employment, including 150,000 new 'jobs for the future' for the young and 60,000 new jobs in the education sector alone (Hollande 2012: 18, 24-25). Moreover, a significant aspect of Hollande's ambitious campaign platform was, in terms reminiscent of Jospin's plans for European level activism, based upon a renegotiation of the terms of the new European Fiscal Compact in order to instil 'measures of growth' into a treaty perceived as holding a German-led deflationary bias (see also Clift 2013a: 119). These commitments represent the PS's method of constructing a recovery programme without sacrificing the French social model (see also Grossman and Sauger 2014:

87). Nevertheless, Hollande's ambitions for French economic recovery should not be characterised by these policies alone.

The PS's programme to date has, rather, also included ambitious targets for fiscal consolidation. In a clear attempt to assuage market trepidation, alongside the measures for growth outlined above, the Hollande's programme has contained what Clift has described as a 'herculean effort' of fiscal consolidation (Clift 2013a: 117; Clift 2014: 2-6; Clift and Ryner 2014: 147). For instance, although it was unable to meet its target, Ayrault's government originally pledged to reduce the deficit to 3 percent of GDP by 2013 (Hollande 2012: 11). Moreover, Hollande promised to work with, if in slightly adjusted terms, Sarkozy's fiscal consolidation plans, suggesting a balanced budget would be achieved by the end of his term in 2017 (Hollande 2012: 40). In order to achieve this the government would need to enact an 'historic' 7 percent turnaround in the structural balance between 2012 and 2017 (Clift 2014: 2). On debt, similarly, Hollande has publically pledged to ensure 'that there is not one euro [of public debt] more at the end of my term' (Hollande cited in Le Monde 2012).

As set out in Hollande's '*60 engagements*' (Hollande 2012), the drive for fiscal consolidation is focused heavily on a robust and progressive taxation system at the expense of deep expenditure cuts. The construction of a more equitable fiscal regime, as put forward by the PS, is based upon higher rates for high-earners, including a 45% rate for income over €150,000 and a 75% rate for those earning €1m and above, merging income tax and CSG payments and taxing capital at the same rate as income. Again, this can be seen as an attempt by the PS to operate a more equitable social democratic programme for recovery.

Nevertheless, Hollande has not sought to move away more broadly from the perceived boundaries of financial rectitude required to balance public finances. This is evident in his limited programme for fiscal expenditure, and the government's ambitious signalling to financial markets of its attitude towards France's debt and deficit. Furthermore, Hollande's call for a greater focus on growth at EU level has not materialised. Although unable to successfully renegotiate the terms of the new Fiscal Compact, Hollande has gone one step further and enshrined its rules in French law (see Clift and Ryner 2014: 149). This declaration of rectitude has, therefore, come at the expense of strengthening tangible constraints on French economic policy makers.

The Labour Party

Despite what has been set out in the preceding section, the experience of the Socialists in power has been interpreted unambiguously by the right in Britain as proof of the failure of a Keynesian response to the crisis. David Cameron, in a thinly-veiled criticism of the French government, told British voters to look to other countries to consider, 'how disastrous a return to Labour-style economics would be' for recovery (Cameron 2014; see also Haldenby 2014). Indeed, this quote captures a wider discourse which permeates the contemporary British political economy. It caricatures the New Labour government as profligate in the years preceding the crisis, and reinforces the image of austerity measures as the necessary 'penance after the immoral party' (Blyth 2013a: 6) of the Labour administration. This message subverts the actual nature of the financial crisis and subsequent Eurozone crisis, as it focuses primarily upon excessive public spending as a contributing factor in the crisis. Nevertheless, this has manifestly impacted upon Labour, with the party being compelled into asserting its understanding of the need for fiscal consolidation as a means of refuting claims of 'deficit denial' (see Balls 2012; see Balls 2013; Wintour 2011). It is within this context that the party, in opposition under Ed Miliband, is having to shape its policies.

Miliband's proposed programme for a Labour government in 2015 sets out some ambitious reforms to the nature of British capitalism. Since 2012 Labour has adopted the concept of

‘One Nation Labour’ (see Wood 2013) as a vehicle for its policies, and within this it has a two-pronged approach to developing a new fiscal stance. The first of these is an emphasis on ‘responsibility’, which posits an enhanced role for the contributory principle at the heart of the welfare system (Wood 2013: 319). This concept of ‘responsibility’ has allowed Labour to appear tougher on welfare, and establish policy initiatives such as a ‘Compulsory Jobs Guarantee’, which will offer a paid job to the young and long-term unemployed which they must take or lose their welfare payments (Balls 2014). Perhaps a more significant development, however, has been the adoption of the idea of ‘predistribution’ (see Hacker 2008; Miliband cited in Cowley 2011). Principally this concept seeks to ‘encourage a more equal distribution of economic power and rewards even before government collects taxes or pays out benefits’ (Hacker 2008: 35). The Party’s plan, therefore, involves tax incentives for employers offering the living wage and a pledge to increase the minimum wage to £8 per hour by 2020 (The Labour Party 2014). Furthermore, the party has suggested it will provide an extra £2.5bn each year for the National Health Service and build 200,000 homes per year (Balls 2014), almost doubling the house building effort since 2008 (DCLG 2014: 4).

Much of these proposals are undeniably more ‘social democratic’ than the New Labour policy regime under Blair. Particularly with regard to the idea of predistribution, the party is seeking to reimagine the state-market relationship through employing a greater level of state involvement in the labour market in order to negate the requirement for welfare payments to top-up wages and boost consumption. However, it should be noted that these policies seek to emphasise *reorganisation* over *redistribution*. Labour has made clear that it seeks to match a ‘fairer approach to deficit reduction with an iron discipline on spending control’ (Balls 2013). In order to do so, Shadow Chancellor Balls has repeatedly asserted the need for ‘tough fiscal rules’ (Balls 2013; 2014), pledging, for example, that Labour will not fund any spending through additional borrowing, including for capital investment, and will match the government's day to day spending totals for 2015/16 (Balls 2013; 2014; Eaton 2014). Pledges such as additional house building and funding for the NHS are accounted for within the existing capital settlement for the next parliament (Eaton 2014) and tax adjustments, including a new 'mansion tax' on houses valued over £2m, respectively. The Party has, therefore, sought to reconcile progressive economic policy with a commitment to 'sound public finances' by matching Conservative spending patterns, and highlighting its cost-neutral fiscal stance.

This section has set out how both parties have sought to construct their economic policies in the post-GFC context. It has shown that both parties have attempted to reconcile their aim of achieving a more progressive recovery management strategy with appeals to sound financial management. How each party has done so varies based upon factors, including the climate of the domestic political economy, which serve to filter perceptions of adequate recovery management strategies. It is the intention of the following section, therefore, to look more closely at the construction of these responses to the financial crisis. It does so, once again, through an analysis of financial market volatility and a consideration of the ongoing viability of a progressive fiscal programme.

Analysis

It is clear that both the PS and Labour, albeit to varying degrees and through different strategies, have tempered their fiscal activism as a result of the perceived requirement to establish financial rectitude in the face of markets. As with the globalisation debate a decade ago, the parties have accommodated a dominant narrative of the crisis which has narrowed their fiscal capacity. It is interesting to note that after the financial crisis, at least initially, the veracity of the globalist logic was questioned by Tony Blair, when he admitted that the GFC was, ‘putting into contention what seemed previously unshakeable orthodoxy’ (Blair 2009). This statement in itself serves to support the argument put forward already in this study, proving the contingent nature of New Labour’s construction of its economic policies. However, the present circumstances in both France and the UK attest to the continuing challenges faced by European social democrats; although the weaknesses of regulatory liberalism have been exposed by the crisis, and the strength of neoliberal ideas dented, it is clear that a similar line of thinking continues to inform the post-crisis recovery management programmes in Europe (see Boyer 2012; Callinicos 2012). Reassessing the situation, therefore, as this section sets out to do, is an important first step in helping to understand the nature of contemporary social democratic economic policy capacity in France and the UK.

The first half of Hollande’s term as President has, by most accounts, been extremely unpopular, whilst the economy has been characterised by weak growth (European Commission 2014: 66-67). The contemporary situation in France, however, has been mischaracterised in some quarters as the inevitable result of a Keynesian recovery management programme, or indeed, a ‘failed socialist experiment’ (see Heath 2014; Haldenby 2014). Upon Hollande’s accession some commentators were, in line with the structural dependency theory, quick to declare that Hollande’s policies would quickly be punished by the markets. *The Daily Telegraph*, for instance, suggested that, ‘traders, rating agencies and the European Union at large could soon be “manning the barricades”’, with the end of the “Merkozy” era of neoliberal solidarity ‘high on the markets’ worry list’ (Waterfield 2012; Gribben 2012). Yet, such fears were not allied with reality.

Within days of Hollande’s inauguration *Wall Street Journal* commentators admitted that warnings of ‘the bond vigilantes riding in to punish France for electing an austerity-bashing Socialist’ were wrong, as the yield on the 10-year government bonds fell (Watts 2012). A positive bond auction in early June also suggested that investors were 'cautiously accepting the new government's economic policy' (Bartha 2012), whilst by mid-July 2012, after the PS had swept to a majority in the legislative elections, the yield on 10-year government bonds fell to a low of 2.07 percent, far lower than it had been in the previous five years under Sarkozy (Bloomberg a.). Whilst growth has been weak, capacity did exist, at least early on, for a greater degree of fiscal activism, and, indeed, has even been called for by the IMF (see Clift 2013b). Had Hollande been able to build upon this momentum and deliver a clear and consistent programme of fiscal activism to support growth, the PS may have been in a strong position to shape the terms of the French recovery.

A direct comparison here with Labour in opposition is, of course, not possible. However, Labour's strategy shows an even greater degree of willingness to signal their financial rectitude to markets. Yet, analysis of the bond markets does not suggest that the imposition of a state of 'perma-austerity' is inevitable. France saw the yield on its 10 year bonds reduce from an average of close to 3.5% in 2010-12 under Sarkozy, to below 2% in 2014 under Hollande. The yield on 10 year UK government bonds during this period has similarly dropped from around 4% to nearer 2.5% (Bloomberg a.; Bloomberg b.). In both cases, therefore, borrowing remains relatively cheap. Given the fiscal constraints Labour has placed upon itself, there appears to be a largely untapped resource of policy space.

Not only do the bond markets suggest that permanent austerity is not inevitable, the premise that austerity is the necessary solution to the rising cost of debt (see Streeck 2011; Streeck and Mertens 2011) also does not hold up. For example, in the UK under the Coalition government, which has pursued aggressive fiscal consolidation through austerity measures, gross government debt increased from 78.4% to 90.6% of GDP between 2010 and 2013 (Eurostat). Thus, whilst the commitment of both parties to reducing their respective debt and deficits is understandable, the extent to which it has impacted upon their perceived ability to spend is questionable. This can, however, be directly related to the construction of the narrative of debt, which has conflated sovereign debt with explanations of the underlying causes of the crisis.

In contrast to the narrative of the debt crisis argument, rising levels of debt since 2008 were not causal factors in the crisis, but a *consequence of* the crisis – initiated by bailout programmes and exacerbated greatly by reduced growth and lost taxation revenue. Both France and the UK attest to this argument. UK government debt under Labour declined from 49.7 percent of GDP in 1998 to 42.7 percent by 2007, yet spiked to over 85 percent of GDP in 2010 (OECD a; see Wren-Lewis 2013) as the government bailed out its domestic banks. Moreover, whilst French debt stood at a higher level, it had been reducing under the conservative Sarkozy in the years before the crisis, before jumping from 52.1 percent of GDP in 2007 to 67.4 percent in 2010 (OECD a.).

It may well be that, for the PS, calls to pursue a more expansionary fiscal path have passed. Given Hollande's own 'U-turn' of sorts under Prime Minister Valls, in which he has asserted a new focus on supply side measures, including a 'responsibility pact' between businesses and the state (Hollande 2013), it appears unlikely any great act of fiscal expansion will occur. Yet, Labour has so far also shut itself off from this potential. This is despite the fact that some 86 percent of the UK's current account deficit in 2009-10 was attributable to lost taxation revenue since the crisis began (Hay and Wincott 2012: 220). Labour's ability to carry out an expansive programme for growth, therefore, continues to be restrained more by its own inability to assert an alternative to the neoliberal account of the crisis (see Coates 2013; Crouch 2013; Rogers 2013). Although under Miliband the Labour party has expressed imaginative ways of reconfiguring the nature of British capitalism, its proposed programme risks, in a similar vein to Hollande, not being able to support growth sufficiently as a result of its unwillingness to break from the perceived parameters of financial discipline required.

Conclusion

This article has shown how social democratic economic policy capacity in France and the UK has been, and continues to be, restricted by the accommodation of contested economic ideas as *de facto* structural conditions. To do so it has developed an understanding of how the debate over economic globalisation and its implications for progressive economic policy, which was particularly vociferous in the decade before the crisis, continues to provide an important insight into the post-crisis context for social democrats. The discourse and narratives which surround the crisis today present a confused understanding of the situation, which serves to implicate progressive economic policies and thus hurt social democratic governments. By internalising neoliberal ideas about the political economy both pre- and post-crisis, albeit to varying degrees and through different lenses, the PS and Labour have continued to give credence to the theory that in the contemporary global economy public expenditure will always go punished by markets.

Through drawing upon data on the integration of markets for bond and equity investments, the first half of this article's analysis highlighted that the economic globalisation thesis cannot in itself explain the policy limitations of either the Parti Socialiste or Labour. Indeed, it demonstrated how each party's engagement with the idea of globalisation served to calibrate their fiscal policies. New Labour's largely globalist understanding of the economic situation ultimately led the party in to adopting a supposedly rationalist, technocratic approach to governance that was demanded by the global economy. Whilst the PS did not accept this, and followed a more 'political' path, their understanding of the logic of globalisation compelled them to accept a restricted approach to fiscal policy espoused at EU-level. The policy strategies of social democrats in France and the UK were, therefore, not necessitated by conditions of economic globalisation, but were guided by their perceptions of global economic interconnectedness.

As the article's final section has shown, however, it is apparent that today, in post-crisis Europe, a similar statement could be made. The dominant discourse of the 'debt crisis' has served to support a renewed 'no alternative' narrative and reinforces the notion that government spending must necessarily be restricted under the prevailing economic conditions. Such accounts of the crisis share a common lineage with first wave globalist arguments, both of which suggest that the contemporary structural dependence of the state upon capital markets now renders social democracy unviable.

Drawing upon this study's analysis of the economic globalisation thesis, it has been possible to show that social democrats in Britain and France have internalised contested notions about the role of the state at the expense of their own economic policy capacities. Moreover, the continuing accommodation of a neoliberal account of the crisis in Europe by Labour, and the restrictions this has placed upon the PS in government, belies the situation at hand. Social democrats today remain legitimate political actors who, at both domestic and regional levels, have an important role to play in resisting the unfounded discourse and narratives which are shaping the post-crisis European political economy.

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