

The Political Economy of Social Democracy: The Swedish Collapse, the Danish Mystery, the British Mirage and the German Dilemma¹

Introduction

Over the past 10-15 years there has been a proliferation of debate amongst political scientists about the future of social democracy (see, for example, Padgett and Patterson, 1991; Andersen and Camiller, 1995; Kitschelt, 1994, Pontusson, 1991; Przeworski, 1985). In the main, this debate has been concerned with the widely proclaimed crisis of social democracy and the contributors have focused on two distinct dimensions of this crisis. First, there has been considerable discussion of the causes of the decline in electoral support for social democratic parties and their exclusion from government in the 1980s. Here discussion has focused on the relative importance of a number of competing variables in explaining the fall-away in social democratic support. These factors have mainly been regarded as sociological. For instance, several authors have tended to focus on explanations such as the reduction in the numerical size of the working class stemming from the processes of economic restructuring and deindustrialisation (Hobsbawm, 1978; Gorz, 1983). Others have stressed the increased heterogeneity in western societies which is seen to have weakened long-standing political loyalties and to have led to the rise of a new left electoral challenge (Kitschelt, 1994). To a lesser degree scholars have also stressed that the electoral failures of social democratic parties rests with their incapacity to devise credible policies in government and in opposition (Andersen and Camiller,

¹ This paper is based on a public lecture delivered at the Fachhochschule Rheinland Pfalz, Mainz, Germany in January 1996 which provided a valuable testing-ground for the arguments it contains. I would also like to thank Mike Hickox and Richard de Zoysa for their helpful comments on an earlier draft.

1994; Pontusson, 1994). However, in the main the study of social democratic policy change has become disconnected from the study of the dynamics of electoral socialism. Hence there is a second distinctive body of work on social democracy which examines the changing political economy of social democracy (Pontusson, 1991; Glyn, 1995). This second strand of work has focused particularly on the failure and abandonment of Keynesian full employment policies and the implications of changes in the international economy for core social democratic policies.

This paper seeks to begin to draw together the study of these two aspects of social democracy by providing an analysis of the relationship between social democratic parties and social democratic political economy. The principal argument of this paper is that the primary challenge facing social democrats is one of political economy, not one of electoral decline. This argument is based on the premise that a distinction can, and should, be made between social democracy as a particular kind of political party belonging to the Socialist International and social democracy as a particular kind of political economic system characteristic to northern Europe post-1945. The nature of this relationship is important for 4 main reasons. First, the essential distinguishing feature of social democracy as a political programme is its core objective to reform capitalism through state intervention in the economy. While the original source of social democratic electoral strength lay in its success from the late 19th century onwards in mobilising the working-classes as a political movement, it was not until the 1930s that social democracy began to emerge as a distinctive and viable political project. This project, the Keynesian welfare state, was the product of a compromise between capital and labour and provided mutual benefits to both during the period of the long Fordist boom of 1945-75. As such, the Keynesian welfare state constituted a particular regulatory system which

enabled governments to manage the political economic contradictions of post-war European capitalism and which facilitated the use of state intervention as a means of producing more equitable social and economic outcomes.

Second, since the basis for the establishment of the Keynesian Welfare State is a compromise between capital and labour, it follows that social democratic political economy is not necessarily dependent on social democratic government. While a social democratic political economy was dominant throughout northern Europe in the period 1945-75, social democratic hegemony in government was arguably only achieved in Sweden and perhaps Norway. Otherwise, north European governments were as likely to be formed from Conservative and Christian Democratic parties as they were from Social Democratic and Labour parties. Third, since social democrats are most clearly identified with the project of reforming capitalism their political success depends critically on their capacity to deliver greater social and economic justice through full employment policy, welfare state expansion and real wage growth. Hence, social democratic support fell away everywhere following the crisis of Keynesianism in the mid-1970s and social democrats have continued to experience sharp falls in electoral support where they have governed through subsequent crises. Fourth, the fact that the decline in social democratic support has been arrested, and in several cases reversed, indicates that mobilising electoral support is not the primary problem for social democrats. However, a more profound question now presents itself as social democrats have returned to government in the 1980s and 1990s: what capacity do they have to achieve specifically social democratic objectives? If there is nothing distinctive about social democratic political economy then it follows that there is little that is distinctive about social democracy.

The paper is in two main sections. The first section develops the argument outlined above regarding the relationship between social democratic parties and social democratic political economy. This argument is advanced in two stages. First, I seek to establish that while social democratic support has fluctuated considerably over the past two decades it shows only partial evidence of absolute decline. Moreover, while social democratic parties were excluded from office in the 1980s, they have been far more successful as office-seekers in the 1990s. As a result, social democratic participation in government is today more prevalent in northern Europe than during much of the post-war period. Second, it is proposed that the hard evidence of social democratic crisis is found in relation to its political economic objectives. Here, I argue that social democracy can only be understood through an analysis of the process through which social democratic political economy developed in parallel with the growth of Fordist capitalism. This account, which draws on a branch of neo-Marxism known as regulation theory, provides a theoretical framework for understanding the crisis of social democratic political economy.

The theoretical framework is then applied in the second section of the paper where I provide 4 country case-studies representing divergent experiences. The first case, Sweden, demonstrates most dramatically the crisis of social democracy: the collapse of social democratic political economy and the political problems which this creates for social democrats. Denmark, by way of contrast, represents a social democratic mystery, with a battered, but recognisable social democratic system re-emerging from 10 years of centre-right rule in the 1980s. It is argued that the fundamental differences in the structures of the Swedish and Danish economies provides the explanation for these divergent experiences. Thirdly, the case of Britain is used to demonstrate the possibility of a social democratic mirage. Nowhere has the dismantling of social democratic political

economy been more in evident than in Britain since 1979 and yet the British Labour Party is widely regarded as the primary example of social democratic renaissance in western Europe. It is argued that the British Labour Party's apparent political success is a mirage founded on the abandonment of a specifically social democratic political economy and the acceptance of a neo-liberal response to the peculiar crisis of British Fordism. The fourth and final case, Germany, stands more clearly as a social democratic dilemma. Germany's broadly social democratic social market economy currently faces many of the same pressures as beset the Swedish model a decade ago. As a result, pressure has built up from German industry for de-regulation of the German labour market and sharp reductions in government expenditure, that is for a British policy response. However, it nonetheless appears that there is still a viable social democratic route out of the country's current problems which would draw on the key lessons from the Danish experience.

Part 1: The Crisis of Social Democracy: A Crisis of the Ballot Box or a Crisis of the Tool Box?

Social Democracy Since 1975: Economic Crisis and Political Revival.

The electoral crisis of social democracy became a popular theme in European political science in the mid to late 1980s when there appeared to be strong reasons to suggest that social democratic parties were facing a steep decline in electoral support. Anyone surveying the north European political landscape in 1985 would have been struck by a comparison with 1975 - which had represented the governmental high-point of social democracy in post-war

northern Europe. In 1975 there were social democratic prime ministers in Great Britain, West Germany, Austria, Belgium, the Netherlands, Norway, Denmark, Sweden, and Finland (Andersen and Camiller, 1994). This social democratic dominance did not take long to unravel. In 1976, the Swedish social democrats lost heavily in elections and were displaced from government for the first time since 1932. Three years later the British Labour Party lost to Margaret Thatcher's Conservatives in the 1979 general election and have been in opposition ever since. Similarly, electoral defeats followed for the Danish, German and Dutch social democrats in 1982.

The right was in power in the majority of north European countries for the bulk of the 1980s. A general crisis of social democracy was widely proclaimed, with sympathisers only able to take comfort in certain counter-trends. The Swedish social democrats were returned to power in 1982 and Sweden, like Austria, was governed along 'traditional' social democratic lines for most of the 1980s. There was also the stark evidence of socialist party strength in southern Europe, particularly in the new democracies of Greece, Spain and Portugal. Yet, by the turn of the decade even these parties seemed to be sliding into crisis. In 1991 the Swedish social democrats suffered their worst electoral performance since the 1930s and support for the southern European Socialist Parties began to enter steady decline from the late 1980s.

It was widely assumed that social democratic support was in decay due to underlying social change, particularly the decline in the numerical size of the working class and the weakening of 'traditional' class loyalties. In turn, it was assumed that this decline in electoral support had led to social democratic exclusion from government. However, a closer examination of electoral trends and government formation in western Europe since 1975 reveals a more complex

picture. It is not at all clear that there has been a decline in social democratic support. Figures 1.1 - 1.8 provide data on electoral support for social democratic parties in northern Europe since the 1970s. It would appear that the main trend observable from these figures is fluctuation, not decline. Figures 1.1 - 1.4 provide data for those social democratic parties which averaged over 35% in elections held in the 1940s, 1950s and 1960s. Likewise, figures 1.5 - 1.8 provide data for social democratic parties which polled an average of below 35% during this period.

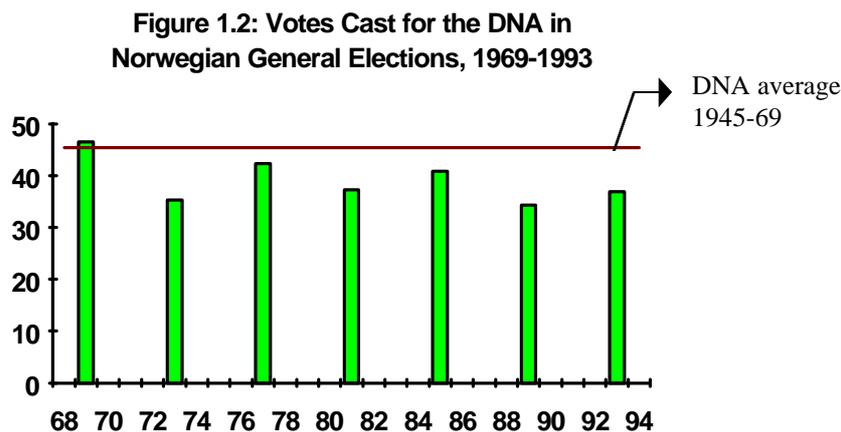
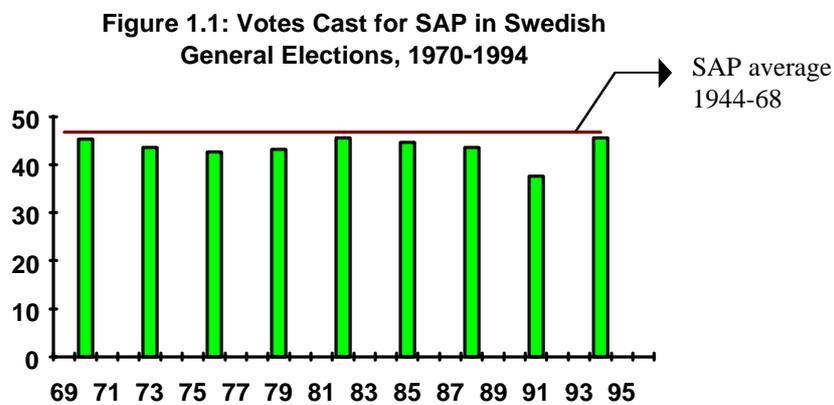


Figure 1.3: Votes cast for the SDP in Danish General Elections, 1971-1994

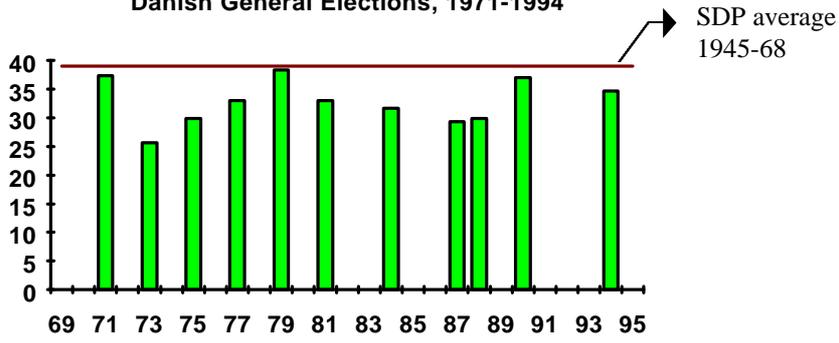


Figure 1.4: Votes cast for the Labour Party in UK General Elections, 1970-1992

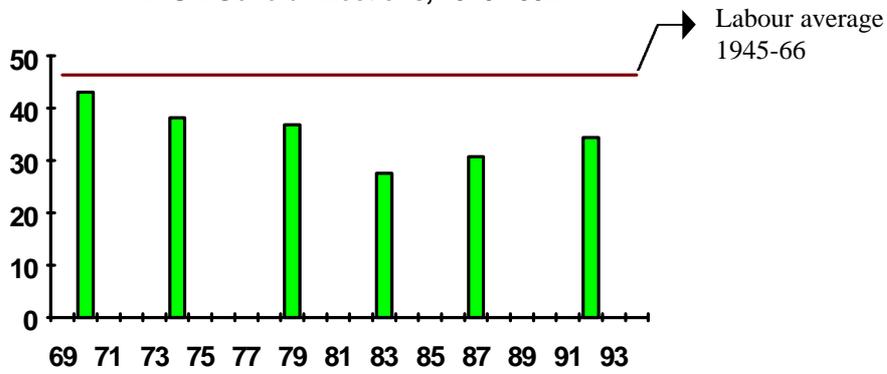


Figure 1.5: Votes cast for the SPD in German General Elections, 1969-1994

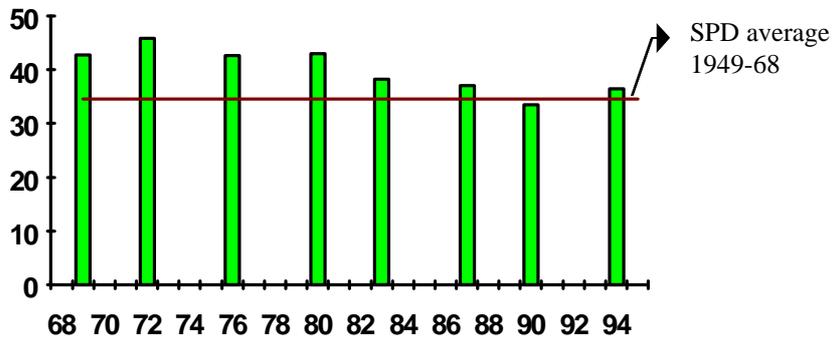


Figure 1.6: Votes cast for the PvdA in Dutch General Elections, 1971-1994

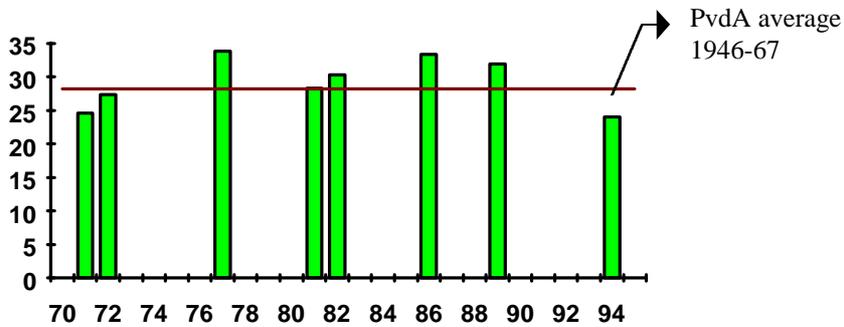
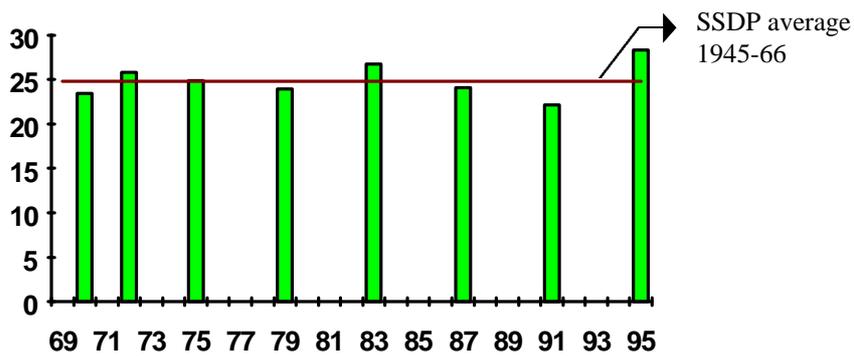
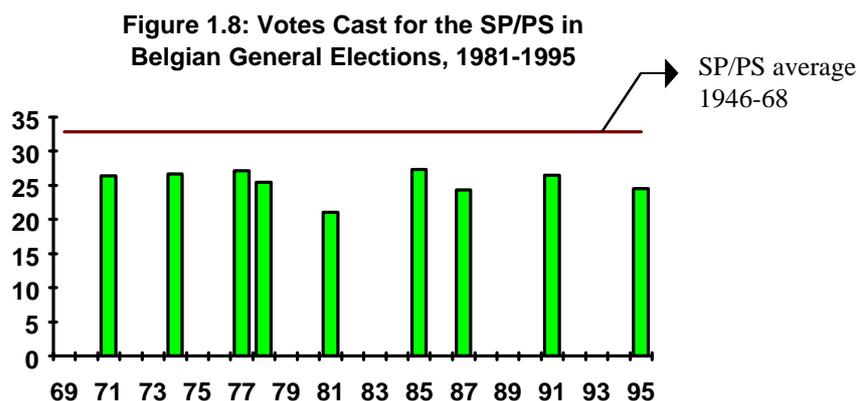


Figure 1.7: Votes cast for the SSDP in Finnish General Elections, 1970-1995





Considering the first four cases it is clear that the period since the 1970s has seen a decline in average electoral performance compared to previous decades. This decline varied from a 3.3% fall in the average vote since 1970 in the Swedish case, to a 10.8% drop in the British case. However, the pattern from the early 1970s is far from being one of continuous decline. In Sweden, the SAP has, with the exception of 1991, been able to maintain electoral support of 42-46% since 1970. Although the SAP's average vote since the 1970s is marginally lower than in the preceding decades, there is no evidence of further decline. The Swedish experience contrasts somewhat to the experience of the DNA in Norway where the absolute decline in electoral support is more dramatic. Since 1973 the DNA votes has been 5-10% below the average level of support in the period 1945-69. However, there is no evidence of further decline after 1973 and the main pattern is one of fluctuation with the DNA approaching the 1945-69 average in both the 1977 and 1985 elections. Such fluctuation also characterises the Danish case. Here, the SDP has experienced some sharp reductions in electoral support, falling below 30% in two periods (1973-1975 and 1987-1988) but the party has recovered lost support in both cases, showing clear capacity to mobilise voters on a scale close to the immediate post-war decades in elections in 1979 and 1990. Finally in this group, the British Labour Party indicates a case of very

sharp absolute decline since 1970, with the 1983 election constituting a clear low-point. However, even here there is a clear pattern of recovery with the Labour vote growing in 1987 and 1992. With Labour some 25-30% ahead of their main rivals in all recent opinion polls it is almost certain that this recovery will continue at the next British General Election.

The second set of parties appear to provide even less evidence of electoral decline. In Germany the SPD was a relatively poor electoral performer until the late 1960s when its support rose above 40% for the first time in the post-war period. In this sense the 1970s provide the exception for the SPD and the fall in the party's support from 1983 represents a return to their average poll in the period 1945-68. As a result, the SPD's average electoral performance in the period from 1969-1994 was actually 5.3% higher than in 1949-65. Similarly, in the Netherlands and Finland the PvdA and the SSDP have both maintained a level of support since the 1970s which is at or above that in the previous decades. Both parties have shown capacity in recent elections to mobilise votes at a level greater than in the apparent golden age of electoral socialism. Only the final case, Belgium, appears to represent a case of permanent decline with the electoral performance of the socialist parties since the 1970s well below that of the post-war average. However, a similar pattern is found with Belgium's main parties of the right - the Christian Democrats - since the principal causes of electoral decline are associated with the re-ordering of the party system resulting from the resurgence of the nationalist/linguistic cleavage in Belgian politics.

In summary, it appears that the recent electoral performance of social democratic parties provides only partial evidence of decline. Levels of electoral support are, in any case, only one side of social democratic political strategy. It is important to draw a distinction between vote-maximising strategies and office-seeking

strategies of political parties. Under certain circumstances social democratic parties may adopt strategies in which some decline in electoral support is accepted as a trade-off for enhanced prospects of gaining office following multi-party elections. Since proportional representation means that the achievement of an absolute majority is beyond the reach of all north European social democratic parties other than the British Labour Party, their positioning in relation to other parties, which may be potential coalition partners or which may provide parliamentary support for a minority social democratic government, becomes a key issue. Thus, Social Democratic parties may lose votes to their left as they align themselves closer with liberal and centre parties (Wilks, 1996b), but in doing so they are more likely to be able to form a viable government.

Evidence suggests that social democratic office-seeking strategies continue to be successful. Figure 2 provides an overview of social democratic participation in government from 1975-1995. As we have already seen, social democrats were in government throughout northern Europe in 1975. In the 1980s social democrats were removed from office everywhere with the exception of Finland with the result that by 1985 social democratic parties held office in only 2 of the 8 north European states. Since then, however, social democrats have demonstrated considerable success in regaining office. The Dutch and Belgian parties both returned to office in the late 1980s and the Danish social democrats were returned to power in 1993 after an eleven year absence. In Sweden the SAP won an overwhelming victory in the 1994 elections and replaced the centre-right coalition which had governed since 1991. Currently, social democratic parties are in government throughout Scandinavia and the low countries. In other words, social democrats have returned to power everywhere other than in the region's two largest states: Germany and the UK.

Figure 2: Social Democratic Participation in Government, 1975-1995

	1975	1980	1985	1990	1995
Belgium	●	●		●	●
Denmark	●	●			●
Finland	●	●	●	●	●
Germany	●	●			
Netherlands	●			●	●
Norway	●	●		●	●
Sweden	●		●		●
UK	●				
	(8)	(5)	(2)	(4)	(6)

This is not a sweeping social democratic revival. While the British Labour Party looks set to win the next general election, the SPD in Germany continues to languish in the political doldrums and its recent change of leadership does not appear to have helped to revive the party. Forced to implement unpopular policies, the Swedish social democrats have fallen to 30% support in the polls. It is likely, therefore, that while social democratic parties remain able to win elections and are successful in gaining office, the pattern of a fluctuating social democratic vote will continue. The primary question facing northern Europe's social democratic parties is not, therefore, the reasons for their electoral decline but rather the reasons for their fluctuating electoral performance.

I follow Pontusson in arguing that the main reason why social democratic parties experience dramatic reductions in support at particular points in time is their failure to manage the economy (Pontusson, 1995). In general, social democratic governments have, in comparison with right and centre-right governments, been punished disproportionately by voters following the periods of economic crisis management which occurred in the 1970s, 1980s and 1990s. During this period

the non-social democratic parties which dominated government during the 1980s came to reject the main tenets of social democratic management which they had previously accepted. Keynesianism, corporatism and welfarism were now blamed for the “Euro-Sclerosis” of the late 1970s.² The shattering of this earlier consensus pushed social democratic political economy into a corner - forcing social democrats to either defend the use of apparently ineffectual tools or accept the critique from the right and provide an alternative political economic project. In effect, most social democratic parties have attempted to steer an ideological middle-way by offering programmes which indicate continued commitment to the welfare state while accepting the need for the removal of certain “market-rigidities”, such as public ownership and collective bargaining. By redefining their programmes in this way, social democratic parties have been able to stabilise electoral support and have gained sufficient support from centre parties to secure office. As such, social democracy’s redefined political economy requires a careful balancing of economic crisis management with increasingly delicate electoral strategies and social democratic electoral support continues to fluctuate accordingly. The source of social democracy’s electoral problems is therefore located in political economy rather than political sociology. This political economic crisis constitutes one of the most critical junctures in the historical development of electoral socialism.

Social Democracy and the Origins of Reformist Political Economy.

In order to understand the contemporary crisis of social democratic political economy it is first necessary to review its historical development. Classical social

² This occurred most graphically in Britain where Thatcherism emerged as an ideological crusade against the policies pursued by all British governments since 1945. Elements of this new-right offensive were, however,

democracy, as represented by the parties of the Socialist International, is essentially a north European phenomenon arising from the formation of trade unions and, from 1870 onwards, mass socialist parties. Initially committed to Marxist beliefs in the overthrow of capitalism through class struggle, social democratic parties were soon faced with a series of choices about whether or not to participate in the reform of the capitalist system. These choices, which began with the dilemma of whether or not to participate in elections, were to pave the way for the construction of a particular social democratic form of political economy.

The decision to participate in elections had two important consequences leading ultimately to the social democratic reformism of the post-war era. First, the focus of socialist parties became centred on the problem of achieving an electoral majority. Since workers never constituted an electoral majority, social democratic parties were forced to seek support from other social classes in order to win elections (Przeworski and Sprague, 1985). This strategy necessitated an electoral trade-off in which radical socialist policies were progressively eroded in order to appeal beyond the working classes. Second, once there was evidence that parliamentary socialism under capitalism could deliver immediate benefits to workers the revolutionary fervour subsided as the reformist road became increasingly attractive to workers and labour leaders alike. The majority of workers therefore came to consent to the capitalist economic system (Wilks, 1995).

By the 1930s social democracy reached a critical juncture. By this time reformism was widely accepted in the practice, if not the rhetoric of social democratic parties everywhere. Yet, the international economic crisis

evident throughout northern Europe from the early 1980s.

demonstrated clearly the crisis-prone tendencies of capitalism and demands for a socialist alternative became stronger. The problem which then emerged was that social democrats could offer no viable way out of the crisis, as was most graphically illustrated by the fall of the Labour government in Britain following the crisis of 1931. However, to the north the future of social democracy was busily being constructed in 1930s Scandinavia where the social democrats had come to power introducing a range of innovative reforms to the ailing capitalist economies of the region. Chief among these reforms was the introduction of anti-cyclical measures to fight unemployment:

In Sweden (and) Norway socialist governments responded to unemployment with a series of anti-cyclical policies that broke with economic orthodoxy. It remains a matter of controversy whether the Swedish policies were developed autonomously, from Marx via Wicksell, or were an application of the already circulating ideas of Keynes...The fact is that social democrats everywhere soon discovered in Keynes' ideas...something they urgently needed - a distinct policy for administering capitalist economies (Przeworski, 1985, p. 36).

Similar policies were introduced by a social democratic-led government in Denmark (Christiansen, 1994) indicating that a proto-Keynesianism had spread across the Scandinavian countries at this time. But there was more to the Nordic alternative of the 1930s than a departure from orthodox economic management. The new economic policies of the Scandinavian countries were, in fact, one expression of compromise agreements between capital and labour. The Swedish agreement between unions and employers at Saltsjöbaden in 1938 is the most famous of these compromises. This agreement represented a truce between capital and labour ending a prolonged period of industrial unrest on the following

terms. Workers would accept private ownership of the means of production and would help to make capitalism as productive a system as possible. In return, capitalists would use increased profits to provide higher wages over the longer-run and to make contributions towards the financing of social policies. A similar agreement was concluded in Norway, where:

The class compromise secured industrial peace, and strike activity declined as Labour came to power...while private business still controlled investment decisions, workers expected Labour in government to resist unemployment and initiate welfare reforms (Mjöset et al, 1994).

The Scandinavian class compromises were the product of particular conditions - principally the substantial power of the labour movements, the vulnerability of the small Nordic economies in the conditions of international economic crisis and the fear of a spread of Fascism from the south (Wilks, 1995). Nonetheless, the essential principles of these class compromises came to constitute the basis of post-war social democracy throughout northern Europe. The adoption of Keynesian full employment policies, corporatist bargaining and extensive welfare provision by government were common features of all north European democracies after 1945. In essence, there was a social democratic consensus throughout the region and, while variations were obviously evident, broadly the same policies and institutional structures were introduced as the Keynesian welfare state became a universal feature of post-war Europe.

Since this social democratic consensus took the form of an agreement between capital and labour which in turn defined a particular role for the state, it did not depend on there being social democratic governments. While the terms of the settlement were shaped by the power of the labour movement, one element of

which was participation in government, other factors such as the structure of capital and the openness of the economy were equally important (Wilks, 1995). Hence, while social democratic parties were key political actors supporting and developing this system of governance so too were other 'People's Parties' such as Christian Democrats (Hirsch, 1991).³ However, social democracy became fully identified with the mechanisms of the Keynesian welfare state and its success dependent on its capacity to deliver long-term growth. It is therefore not surprising that the ongoing crisis of this system from the mid-1970s has coincided with fluctuations in electoral support for social democratic parties over the same period. By contrast it has been far easier for right and centre-right governments since the late 1970s to break with their earlier acceptance of many of these objectives.

Following Przeworski (1985), the social democratic political economy which emerged from this compromise can be characterised as follows. First, there was an agreement that workers would be less militant and co-operate in achieving higher productivity. In turn, capitalists would invest, rather than consume, the higher profits made possible by the compromise, enabling continued real wage growth over the long-run and leading to a rising share of the national income being paid to labour (Przeworski, 1985). In addition, capitalists would help finance welfare state growth in order that a "social wage" be made available to workers for moderating their wage claims (Wilks, 1995). While this social wage was used in part to generate greater social equality, a key objective of the social democratic welfare state was also "decommodification" (Esping-Andersen, 1990). This meant that access to services such as education and health was universal, irrespective of income, and that workers' absolute dependency on

³ This also includes the British Conservative Party which in the period 1945-1970 was dominated by the doctrine of "one nation" Toryism.

wage-labour was lessened through the provision of unemployment benefit and other forms of social security (Esping-Andersen, 1990). The state therefore plays a critical role in sustaining the compromise by providing collective welfare services. In addition, the state's role was also to maintain the compromise through Keynesian economic management since, for capitalists, increased productivity depended on a rising level of demand and, for labour, achieving reductions in social inequality through real wage growth depended on full employment.

The political economy of social democracy in the post-war period must therefore be conceived of as a system dependent on the achievement of interlocking objectives. In the period 1945-75 this system of "organised capitalism" operated, on the whole, in a highly successful manner successfully combining productivity growth, full employment, labour peace, welfare state expansion, steady wage growth and greater social equality. However, in the period since 1975 a quite different pattern has become apparent. Tables 1 - 6 provide a range of economic and social data for the north European states over the past 20 years. Each data set provides an indicator of the success of the key social democratic political economic objectives outlined above. Table 1 provides data on productivity. Increased productivity lies at the heart of the social democratic compromise. However, productivity rates fell sharply across northern Europe in 1974-79 and did not recover to any significant degree between 1980-91. This fall in productivity did not appear, however, to be the product of renewed militancy on the part of labour. Table 2 shows that, in the main, the number of working days lost through industrial disputes has declined since 1975 in the north European economies. Further evidence that labour has stuck with the terms of the original compromise is provided in table 3 which shows that real wages have grown only

modestly since 1980. The average annual real wage increase across northern Europe varied from 0.1% - 2.6%.

Yet, while labour may have stuck to the terms of the class compromise, it has not continued to receive a growing share of the national product. This represents a clear break with the period 1945-75 (Wilks, 1995). Table 4 shows that between 1975 and 1991 the share of national income paid to labour fell throughout northern Europe other than in Denmark and Sweden. In the cases of the Netherlands and the UK, labour's share of national product fell by 10 and 12 percentage points respectively, while in Belgium the fall was 7%. To a large degree, this fall in the share of national product paid to labour is explained by table 5 which provides data on unemployment rates in northern Europe. As is well known, unemployment rose sharply from the mid-1970s, reflecting the abandonment of Keynesian full-employment policies in that period, a core feature of the social democratic class compromise. In the period 1990-94 unemployment rates in northern Europe ranged from 5.2% in Sweden to 12.1% in Finland.

The failure to maintain real wage increases and full employment has inevitably made the social democratic goal of greater income distribution far more problematic. Table 6 provides indicators for income distribution in northern Europe measured by the Gini coefficient. The Gini Coefficient is a score between 0 and 100 where 0 would represent an perfectly equal distribution of wealth and 100 would mean that all wealth was in the hands of one individual. Hence, the higher the number, the greater the level of social inequality. The data show that while the north European welfare states were able to counteract social polarisation resulting from changes in the labour-market outlined above, the general pattern in the period after 1975 was one of increased inequality. This

occurred most dramatically in the UK where the Gini coefficient rose from 23.8 to 33.7 in the period up to 1990.

Table 1: Total Factor Productivity - % change at annual rates

	BEL	DEN	FIN	GER	NL	SW	UK
1960-73	3.9	2.8	3.3	2.6	3.4	2.7	2.3
1974-79	1.4	1.1	1.6	1.8	1.8	0.4	0.6
1980-91	1.4	1.4	2.1	1.0	0.8	0.6	1.3

Source: OECD, *Economic Outlook*, 1993.

Table 2: Industrial Disputes - Working Days Lost per 1000 employees

	1975-79	1980-84	1985-91
Denmark	86	110	229
Germany	52	55	2
Netherlands	57	20	10
UK	517	483	180

Source: Wolfgang Letcher (ed) *Trade Unions in the European Community: A Handbook*, London: Lawrence and Wishart, 1995

Table 3: Growth of Real Wages, 1980-93, annual % increase.

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	AVE '80-'93
BEL	2.6	0.7	-1.2	-2	2.3	0.3	3.1	0.8	1.2	1.6	2.1	3.1	2.9	1.4	1.3
DEN	-1.2	-3	1.1	2.1	-0.3	0.1	1.5	3.2	-1.1	1.6	1.4	1.4	0.9	1.6	0.6
FIN	2.8	2.6	0	1.2	3.2	4.7	4.9	4.4	5.8	4.8	4.8	0.6	-4.8	1.2	2.6
GER	1.4	-1.5	-0.5	0.6	1.4	0.9	3.8	3.1	1.9	0.2	1.5	1.2	1.7	-1.2	0.9
NL	-0.5	-2.6	0.6	1.2	-3	-0.6	2.6	1.1	0.4	-0.4	0.6	0.6	0.6	0.8	0.1
SWE	1.5	-1.6	-3.1	-0.9	1.8	1.0	4.1	3.2	2.3	6.2	-1	-2.9	2.3	-0.8	0.8
UK	1.1	1.3	0.3	3.3	1.1	2.5	4.9	2.2	3.2	0.6	0.5	2.3	2	1.8	1.9

Source: Derived from OECD, *Economic Outlook*, 1993.

Table 4: Share of total national income paid to labour, 1975-1991

	BEL	DEN	GER	NL	SWE	UK
1975	74.4		73.5	79.7		78.3
1976	76.1		73.6	77.2		76.7
1977	75.3		73.6	74.5		75.4
1978	75.1		73.5	73.8	83.6	75.1
1979	74.1	68.3	73.4	73.8	81.4	74.3
1980	73.9	68.9	74.0	73.7	80.8	74.2
1981	72.2	67.3	73.1	72.4	82.3	71.8
1982	71.2	67.1	72.4	71.6	79.7	70.2
1983	71.2		71.3	70.5	77.9	68.9
1984	69.9	67.4	70.2	69.3		67.8
1985	68.2	67.1	70.3	68.7		67.7
1986	69.0	68.3	71.5	69.5		66.6
1987	67.6	70.9	71.5	69.6	80.1	66.2
1988					80.0	
1989					81.4	
1990					84.2	
1991					83.9	

Sources: Eurostat, *National Accounts, 1970-87*, Luxembourg, 1990; Eurostat, *National Accounts, 1970-83*, Luxembourg, 1986; Statistics Sweden, *Statistisk Arbog*, Stockholm, 1985-1995.

Table 5: Unemployment in Northern Europe, 1960-1994

	1960-67	1968-73	1974-79	1980-90	1990-94
Belgium	2.1	2.3	5.7	10.9	10.6
Denmark	1.6	1.0		8.1	11.1
Finland	1.6	2.6	4.4	4.7	12.1
Germany	0.8	0.8	3.4	6.7	7.8
Netherlands	0.7	1.5	4.9	9.5	6.2
Norway	1.0		1.8	3.0	5.6
Sweden	1.6	2.2	1.9	2.5	5.2
UK	1.5	2.4	4.2	9.2	8.6

Sources: OECD, *Historical Statistics 1960-1990*, Paris: OECD, 1991; OECD, *Economic Outlook 58*, 1995, Paris, OECD, 1995.

Table 6: Income Distributions in Northern Europe, 1975-1990, Gini coefficients.

	1975	1980	1985	1990
Belgium			22.5	23.4 (1988)
Denmark		22.7 (1981)	20.1	
Finland	21.6 (1976)	20.6 (1981)	20.0	
Germany	25.4 (1973)	25.4 (1978)	26.0	26.0
Netherlands		28.3 (1981)	28.1	29. (1989)
Norway		23.5 (1982)	22.6 (1986)	24.4 (1989)
Sweden	21.3	19.4	20.5	23.5
UK	23.8	25.3	27.9	33.7

Source: A.B. Atkinson, 'Seeking to explain the distribution of income', in John Hills (ed) *New Inequalities: The Changing Distribution of Income and Wealth in the United Kingdom*, Cambridge University Press, 1995.

In short, there has been a pervasive failure across northern Europe since 1975 to achieve social democratic political economic objectives. Certainly, aspects of the class compromise can still be seen to operate, in particular labour-peace and a general commitment to welfare provision. However, social democratic political economy requires the simultaneous achievement of interlocking and mutually dependent objectives. The crisis of productivity, the falling share of national income paid to labour and the failure of full employment policies therefore represent more than just individual economic policy failures. Taken together, these failings indicate the absolute failure of social democratic political economy. It is to the reasons for this failure that I now turn.

Social Democracy and the Crisis of Fordism

As a reformist movement, social democracy can only be understood in terms of its relationship to capitalism. Social democratic success in the post-war years was entirely dependent on its ability to manage and regulate a dynamic capitalist economy. From the mid-1970s the assumptions on which that social democratic management was based began to break down as the western capitalist economies entered a protracted period of crisis.

I wish to argue that the most powerful explanation for the crisis of capitalism from the mid-1970s and its impact on social democracy is provided by a branch of neo-Marxism known as 'regulation theory'. Associated principally with the work of the French regulationist school, this body of theory has sought to explain how capitalism survives and adapts in the face of periodic and far-reaching crises (Aglietta, 1979; Lipietz, 1988). Essentially, the regulationists argue that capitalism ensures its own survival by reproducing itself in different forms. Distinct phases of capitalist development are therefore observable, with these phases bounded by periods of major crisis, such as the 1930s and 1970s. According to the regulationists each phase is based on a particular regime of accumulation (systems of production, organisation of the labour process, etc.) which is maintained by a specific mode of regulation (supportive structures such as state intervention). They argue that the period from the 1930s to the 1970s saw the emergence and collapse of a Fordist regime of accumulation, supported by the regulatory regime of the Keynesian welfare state. The crisis of Fordism and the emergence of a post-Fordist era has, in turn, led to the crisis of the Keynesian welfare state and the search for new institutional and policy arrangements.

The term "Fordism" was originally coined by the Italian Marxist, Antonio Gramsci, to describe the production methods of Henry Ford. The concept has

since been developed to refer to a general system of capitalist organisation which emerged from the crisis of an earlier regime of competitive regulation. In contrast to the previous economic order Fordism was based on creating a highly organised form of capitalism dependent upon two interlocking virtuous cycles, one of production and consumption and the other of accumulation and regulation. Figure 3 provides a diagrammatic model of state-economy relations under Fordism. The left-hand side of the diagram shows how the Fordist economy operated around a particular regime of accumulation which achieved a virtuous cycle as follows. Firstly, mass production of goods using strict division of semi-skilled labour and Taylorist organisational principles enabled the achievement of economies of scale and huge leaps in productivity. This productivity growth, in turn, enabled employers to pay workers higher wages above subsistence levels. The workers could then afford the goods they were producing, establishing a mass consumption market-place for the development of further Fordist production.

Despite the virtuous cycle, this regime was nonetheless prone to breakdown and therefore needed to be regulated. Hence, the periodic failure of the Fordist regime of accumulation meant that state intervention on the demand-side came to be seen as legitimate by both capital and labour. From the perspective of capital the overall level of demand had to be maintained to protect production as far as possible from cyclical down-turns - hence Keynesianism. Likewise, mass consumption depended on there being a mass market-place which was maintained through the provision of state transfer payments to low-paid workers and those outside the labour-market. From the perspective of labour, the failure of Fordist accumulation to provide sufficient incomes to all citizens also legitimated such state intervention to guarantee full employment and to provide unemployment and sickness benefits and pensions.

The Fordist system also required state intervention on the supply-side. Productivity gains depended heavily of there being a relatively healthy and happy workforce possessing a basic level of skill. The provision of collectively consumed services such as housing, health and education were therefore essential props to this system of production. Public investment, particularly in infrastructure, was also essential. At the same time, state provision on this scale could only be secured through the growth provided by the Fordist regime of accumulation. In this sense, Fordism was also characterised by a virtuous cycle operating between the regime of accumulation and the mode of regulation - the Keynesian welfare state. The essential link between these two virtuous cycles was provided by collective bargaining. While high wages are at the heart of the virtuous cycle, wages must also be carefully controlled in order to protect profit-margins and facilitate further investment to achieve greater productivity gains. Corporatist bargaining was therefore essential to balance the potentially conflicting objectives of productivity gains and real wage growth. Hence, collective bargaining was necessary to manage the division of national income. In turn, balancing wage restraint on the part of labour with the investment needs of capital required agreement to be reached over the appropriate provision of public goods, the second key function of collective bargaining arrangements.

If the regulationist account is correct then the implications for social democracy are profound. The social democratic project had been appropriate, indeed essential, to the Fordist period - improving the living standards of workers was central to both social democracy and Fordist capitalism. Thus, while the relationship was never entirely cosy, there were obvious mutual benefits. The transition from Fordism has, however, shattered the symbiotic relationship on which the class compromise was based. Today, in an era of globalisation, rapid technological change and dramatically enhanced competition, capital has sought

greater flexibility and de-regulation. At the same time, economic power is increasingly concentrated in the hands of multi-national corporations which not only operate across national boundaries but also have the ability to shift production in order to exploit competitive advantages such as lower wage costs. With mass production performed far more cheaply in the low-wage Asian economies, Fordist industrial production in Europe has been forced to wither, adapt or die. Those industries which have survived - and many did not - have done so by substituting labour with capital, most famously in the “roboticisation“ of the car factories, and by returning to smaller-scale, specialist manufacturing in which the West still has a critical competitive advantage.

Inevitably, these changes have disrupted the terms of the class compromise. In order to survive, capital has had to break from traditional relationships with labour and pressured governments to facilitate flexibility and de-regulation. Moreover, capital sought to break from corporatist wage-bargaining systems since there were no longer advantages to be gained from national wage-settlements. Instead, local control over pay-bargaining and working practices was sought to give employers more control over the labour process. Governments, meanwhile, found that the tools of Keynesian economics were blunt instruments in the context of greatly enhanced globalisation - boosting domestic demand was no longer the easy solution to unemployment since production was increasingly dominated by exports and consumption by imports. In addition, the enhanced flows of finance capital meant that governments following reflationary policies did so at the mercy of the currency speculators, as the French Socialists discovered in 1982-83.

As the Keynesian and corporatist supporting structures were withdrawn, the role of the welfare state also became deeply problematic. In particular, the rapid rise

in unemployment stemming from the abandonment of Keynesianism caused government expenditure to consume larger and larger proportions of GDP. Never designed to cope with mass unemployment, the welfare state could not only cease to add functions as social democrats had wished - it had to shed them.

In policy terms the results of the collapse of the Keynesian welfare state have been dramatic. Government economic policy switched from the demand-side to the supply-side, not only in the classic Monetarist experiments in Britain and America but throughout the OECD. The provision of a stable business environment with low inflation and tight control over wages became the main objectives of economic policy. Governments have sought to de-regulate labour markets to provide employers with more flexibility and at the same time make concerted attempts to attract “footloose” international capital (often leading to conflicts between EU states) by promoting regions with low cost, non-unionised workers (often women). Training has become the great panacea and providing industry with employees with the appropriate skills is seen as the key to enhancing competitive advantage in the global market place. As large-scale production disappears, small and medium-sized enterprises are encouraged. The state has been restructuring too, attempting to become more business-like, adopting management ideas from post-Fordist industry and contracting private companies to deliver services. In short, the crisis of Fordism has pushed governments everywhere, albeit to markedly different degrees, to neo-liberal solutions. The emergent political economy of post-Fordism presents a powerful challenge to social democracy. As we shall see, the social democratic systems of northern Europe have responded in diverging ways.

Part 2: Responses to the Crisis: Sweden, Denmark, Britain, and Germany.

Sweden: The Collapse of Social Democracy

If there was ever a model of post-war Fordism, it was Sweden. While Sweden has long been dependent on international trade and exports, in the immediate post-war years Sweden was characterised by greatly increased production for domestic markets (Pontusson, 1994). In this period, firms like Volvo and Electrolux emerged as mass-producers of consumer goods using semi-skilled labour and Fordist production methods. These companies grew on large domestic sales enabled through a general increase in the standard of living facilitated by social democratic policies. As the home market became saturated, production became more orientated to export markets and the corporations evolved into some of the world's largest multinationals. However, until the 1970s, there was considerable reliance on the Keynesian policies of the government and its close relationship with the labour movement.

Promoted by the policies of the labour movement, the rise of consumer durables and the spread of Fordist mass production principles to other industrial sectors was a major source of post-war productivity growth - which in turn made possible increasing real wages and expanding welfare services, in a virtuous cycle (Pontusson, 1994, p.41).

The Swedish model was, of course, the envy of the world but it is now recognised to be in crisis. That crisis is properly traced back to the mid-1970s when Sweden was beset by the same problems as everywhere else. Sweden in the 1980s managed to sustain an illusion by persisting with Keynesian policies and holding unemployment and public expenditure down while they grew sharply elsewhere. The illusion was, however, shattered by the end of the decade and

from 1990 the depths of the Swedish crisis became clear. While budget surpluses had been recorded for four consecutive financial years state finances moved back towards a deficit in 1990/91. The value of Gross Domestic Product which had grown at a rate of more than 2% annually from 1983 to 1989 fell by almost 2% and unemployment rose sharply. At the same time, inflation reached 10% in 1991, the highest anywhere in the developed world. Inevitably, the Swedish economic crisis has led to extensive cuts in welfare expenditure, initiated by the centre-right government after 1991 and extended by the returning social democratic government from 1994.

The argument made here is that the collapse of Swedish social democracy is directly related to the transition from Swedish Fordism. In particular, globalisation has pushed Swedish industry into severing its last remaining links with the historical compromise on which Swedish social democracy was based. Of critical importance here is Sweden's deepening dependency on international trade which has had two major implications. First, it has served to increase the potential influence on government policy of the handful of large export-orientated manufacturers which dominate the Swedish economy. At the same time, since these companies depend entirely on their ability to survive in increasingly competitive international market conditions, pressures from these companies have reflected a significant shift of Swedish corporate interests which have led these companies to reject the Swedish model. Secondly, as the market-destination of Swedish products shifted increasingly from the domestic to the international market, company organisation adapted accordingly. In particular, Swedish companies became more trans-national in their orientation. Thus, while just 12% of employment in Swedish corporations was based in foreign subsidiaries in 1960 this had risen to 26% by 1978 and 37% by 1987 (Pontusson, 1994). As globalisation has accelerated, the impact of both of these tendencies

has become increasingly dramatic. In essence, Swedish corporations have launched a twin-track offensive, seeking both to bring massive influence to bear on government policy and to secure their position in volatile international markets through increased foreign investment.

One of the first signs that globalisation was serving to undermine the premise of the Swedish model was the breakdown of central collective bargaining in the 1980s. Admittedly, this demise was partly attributable to the increasing dominance of large public sector unions. These unions were not tied to the class compromise which had grown out of the crisis agreement of the 1930s and which characterised the collective bargaining process in the export-orientated industrial sector. As a result they were “less willing and less able to conclude binding wage agreements in line with government policy” (Lash and Urry, 1987, p.211). However, notwithstanding the problems which these tensions within the union movement posed for national collective bargaining, it was the pressure from large export-orientated Swedish companies to scrap corporatist bargaining which was decisive (Ahlen, 1989). Whereas corporatist bargaining was the solution to the problems faced by Sweden's export-based industries in the 1930s, in the 1980s it became one of the principal problems. The key to the global crisis of the 1930s was to achieve security in domestic labour relations and combine this with moderately inflationary pre-Keynesian demand-management. By contrast, in the 1980s the growth of international competition was such that, in order to maintain competitiveness, the large Swedish exporters sought more flexible methods of production and greater local control over wage bargaining and thus broke from the corporatist model.

The second principal response of Swedish big business to enhanced global competition has been to invest capital overseas. While Swedish direct investment

abroad was 10% of all business investment in 1985, it had risen to 28% by 1989. While Swedish direct investment abroad was below 1% of GDP until 1982, after 1987 Swedish overseas investment rose sharply and by 1990 it exceeded 6%, higher than any other developed economy. In 1987 and 1988, 61% of profits from foreign operations were reinvested abroad suggesting that the globalisation of Swedish investment was subject to a 'multiplier' effect, leading to an accelerated loss of investment. One of the key driving forces behind this outflow of investment was undoubtedly the creation of the Single European Market, itself a key example of globalisation in the 1980s: between 1986 and 1990 the proportion of Swedish direct investment destined for the EC rose from 24% to 73%. As a result, the Social Democrats were finally pushed into submitting an application for EC membership in October 1990 (Pontusson, 1995).

The recent wave of post-Fordist capitalist restructuring which has prompted the shift of Swedish investment abroad has not only served to heighten Sweden's economic problems and reduced dramatically the ability of national governments to manage the economy, but more significantly, signals the end of the domestic investment strategy based on the class compromise originally agreed at Saltsjöbaden in 1938 (Wilks, 1996a). The shattering of this compromise has had profound implications for the economic policies of the returning social democratic government. Under conflicting pressures from Swedish industry and the trade unions, the SAP has recently launched a new set of economic policies which attempt to balance these tensions. Offered as a policy agenda to reduce unemployment, the SAP has indicated that the following measures will form the cornerstone of its management of the Swedish economy:

- Reducing the budget deficit;
- Providing for low inflation;

- 100,000 new places in higher and further education;
- More stringent benefit regulations;
- Tax incentives for small businesses.

Perhaps the most striking thing about these policies are that they are remarkably similar to those followed by Conservative governments in the UK since 1979. Yet, as we shall see, these policies also exhibit marked convergence with recent developments in the British Labour party as well as with current directions in German economic policy.

Denmark: A Social Democratic Mystery?

Arguably, Denmark was never Fordist, at least not in terms of production (Nielsen and Pedersen, 1989). While post-war Denmark showed evidence of mass consumption of standardised goods and of the regulatory form of the Keynesian welfare state, its Fordism was strictly demand-side. Until recently the economy was dominated by agriculture - as late as 1958, more people were employed in agriculture than industry. While a second industrial revolution in the 1960s enabled the expansion of state expenditure the end result was the concentration of employment in the public sector. Production was, and still is, dominated by small and medium-sized enterprises and there were very few large companies (Nielsen, 1989). Moreover, 30% of GDP comes from exports which today are strongly based around high-technology goods and the exploitation of particular specialist market niches. Hence, the Danish economy was never based on a virtuous Fordist cycle of mass production and consumption as it was elsewhere.

This mis-match between a Fordist demand-side and a non-Fordist supply-side made Denmark the most difficult of the Scandinavian states and it was always seen as an outlier in terms of the Scandinavian model (Mjøset, 1987). The imbalance created obvious problems. With high wages and high levels of domestic demand, Denmark sucked in vast levels of imported goods leading to a severe balance of payments problem and a huge foreign debt (Damgaard, 1988). The large public sector could only be financed through a growth in export earnings which in the mid-1970s began to stagnate as a result of the general international economic down-turn. There was increasing tension within the labour movement between those employed in the export-orientated industries and the public sector, leading to a breakdown in labour movement solidarity and the collapse of collective bargaining talks in 1975, 1977 and 1979.

The minority social democratic governments of the 1970s struggled with these problems in a parliament comprised of ten parties from the far-left to the far-right. In 1982, the government produced a final set of proposals which were defeated in parliament. Exhausted, the Prime Minister, Anker Jørgensen resigned and called an election. As a result, the social democrats did not regain power for 11 years during which time a Conservative-Liberal coalition governed the country. It was often characterised as a neo-liberal regime intent on dismantling the social democratic legacy it inherited through welfare cuts, privatisation, deregulation and direct attacks on collective bargaining arrangements. Through these policies inflation was tamed but as elsewhere unemployment rose sharply reaching 12% in 1984 and widespread industrial action broke out in 1985 intended to bring down the government. The unions failed to remove the government, however, which went on to win elections in 1987 and 1990.

Curiously, Denmark today appears to be something of a social democratic miracle. While the Swedish model has collapsed, the “imperfect” Danish model has survived. Despite the fact that unemployment remains at 10%, Denmark is one of a tiny minority of countries that looks set to meet the EMU convergence criteria. Inflation is at 2%, interest rates at 8% and the budget deficit for 1995 is 2% of GDP. Total public debt has been falling steadily and should reach the EMU target level of 60% by 1999 (Carnegy, 1995). At this same time, the welfare state remains largely intact and despite certain cuts, the broad basis of entitlement remains the same. Moreover, the country’s collective bargaining arrangements have remained intact and the labour-market has not been deregulated to the degree it has elsewhere. Most striking of all, unionisation levels have increased to 80% of the workforce. As a recent book on trade unions in the European Union notes:

Compared with trade unionism elsewhere in the European Union the Danish trade union movement has been able to withstand the crisis of the 1980s and safeguard gains put in jeopardy elsewhere. There has, for example, been no large-scale deregulation of industrial relations and the extensive coverage of the Danish workforce by collective agreements has remained intact (Lecher and Naumann, 1994).

The evidence for the remarkable resilience of Danish corporatism is further outlined in a recent book entitled *The Survival of the Danish Model*, (Due et al, 1994). The authors argue that this is in fact the result of the terms of the original Danish class compromise in 1899. Moreover, they demonstrate that the survival of the country’s model of industrial relations is at the centre of the survival of its broader social democratic regime.

The paradox in this story is that to explain the apparent survival of social democracy in Denmark we have to return to the problematic nature of the Danish model which were its key problems in the Fordist era. Denmark's demand-side Fordism in many ways pre-figured what was to be experienced elsewhere. The Danish economy was therefore in a better position to adapt since it already had a dominance of what was to become post-Fordist industry, based around small businesses operating in specialist niche markets in the world economy. Since the Danish system of industrial relations has long been designed to deal with the challenges this presents, it was more able to adjust to the very difficult conditions of the 1980s. Denmark's 'success' has not been easily achieved but two factors have helped enormously. Firstly, Danish membership of the EEC from 1973 prevented the outflow of capital on the same scale as was to occur in Sweden and was further reduced by the lack of capital concentration. Secondly, the Danish labour movement has, since the late 1980s, accepted the need for change but it has done so within the framework of Denmark's negotiated economy. Reforms have eschewed deregulation in favour of other forms of flexibilisation introduced into the labour market, including mechanisms designed to facilitate work-sharing such as reduced hours for reduced pay and state supported sabbaticals from work.

Britain: Constructing The Social Democratic Mirage

Despite the drama of the collapse of social democratic Sweden, the crisis of north European Fordism was arguably most dramatic in Britain. In the mid-1970s Britain was dominated by manufacturing industry, much of which was in public ownership. For decades, unprofitable enterprises had been subsidised by the state and few had responded suitably to international economic change. There were also frequent labour disputes, particularly in coal-mining but also in ship-building

and car-manufacturing. The failure to achieve labour-market peace was due to the very weakly institutionalised class compromise and the absence of proper collective bargaining arrangements. Moreover, even in the private sector profits were in steep decline, causing a major investment crisis in the early 1970s. Thus, the British economy reflected a flawed Fordism in which higher wages were achieved without higher productivity.

In the economic turmoil of the 1970s the problems came to a head. The Labour government of 1974-79 was forced to borrow from the IMF and to introduce deflationary policies involving reductions in public expenditure and the imposition of rigid pay controls. Unemployment rose sharply, but so did inflation, making the pay control agreements impossible and in 1978-79 a wave of public sector strikes followed in what to this day is known as 'The Winter of Discontent'. Margaret Thatcher won the 1979 general election committed to monetarist economic policies to control inflation and reduce public expenditure and to policies intended to impose greater control over the trade unions.

The immediate impact of these policies was to sharply hasten de-industrialisation and to increase unemployment to 3 million. The initial response of the Labour Party, in a period of bitter internal debate, was to move sharply towards more socialist policies. At the 1983 general election it called for more nationalisation, UK withdrawal from the EEC and tight exchange controls to prevent money leaving the country. The programme was a socialist fantasy. One senior Labour MP, Gerald Kaufmann, called it 'the longest suicide note in history', and in political terms it was - Labour lost decisively at the election. More profoundly, however, it represented Labour's total failure to come to terms with the nature of the economic crisis and the forces shaping it.

Events since then have seen the post-war social democratic settlement almost entirely dismantled. Britain's unstable class compromise was shattered through the introduction of the most substantial neo-liberal policy agenda anywhere in Europe. Among the main policy changes have been the following:

- Control over inflation as virtually the sole objective of government economic policy;
- A large-scale privatisation programme, returning enterprises from British Airways to British Rail and the utilities to private ownership;
- Concerted attack on the trade unions;
- Extreme de-regulation of the labour market;
- Dramatic cuts to the welfare state;
- Introduction of private sector involvement to virtually all aspects of public policy, including the provision of infrastructure;
- Dramatic cuts in income tax, especially for the wealthy;
- Training policy controlled by the private sector;
- Concerted efforts to attract inward investment.

The impacts of these policies have included the sharpest rise in social inequality anywhere in western Europe and a persistently high level of unemployment since 1980. Labour's response to this Thatcherite settlement has largely been to accept its main terms (Hay, 1994). Since Neil Kinnock became party leader in 1983 Labour has been hell-bent on modernisation. Initially, Kinnock wanted to make Labour a 'mainstream' European social democratic party and to break away from Labour's radical socialist tradition. However, more, recently, under Tony Blair the direction has been one of creating a post-social democratic party. The most recent policy positions developed by Labour include:

- An attempt to weaken Labour's relationship with the trade unions and hold them at arm's length, particularly with regard to proposals for a minimum wage;
- Regular meetings with industrialists to reassure them that they will be fully consulted over the introduction of a minimum wage and the European Social Chapter;
- Establishment of low inflation as the main economic policy goal for a Labour government;
- Training regarded as the key policy response to unemployment;
- Introduction of enforced training schemes for the unemployed with benefit cuts for those who do not attend;
- Advocacy of lower taxes and no commitment to increased public expenditure (despite it being one of the lowest in the EU);
- No commitment to measures to reverse labour-market deregulation other than those included in the Social Chapter.

These policies are not just designed to win an election. They involve a complete shift of Labour's identity and internal organisation. In essence, these policies present no alternative to the neo-liberal response to the crisis of British Fordism. Whether or not Labour wins the next general election, it will not be elected to implement a social democratic programme. It can therefore only be regarded as a social democratic mirage in which social democratic electoral popularity acts as a temporary smoke-screen for the absence of a distinctive social democratic project.

Germany: The Social Democratic Dilemma

Post-war Germany was in many ways a close conformer to the Fordist model, although with important caveats. While significant sections of German industry have been directed at the production of mass consumer goods, German economic success has been founded critically on the production of chemicals and machine goods. Nonetheless, the organisation of German capitalism since 1945 exhibits the main features of the Fordist model: a high productivity, high wage economy sustained through strong domestic demand and regulated by a consensual system of collective bargaining. Moreover, the notion of the social market economy which lies at the heart of the German model has provided for a distinctive social democratic political economy in which a dynamic free market economy is directed towards the promotion of social justice (Hutton, 1995).

The key feature of the German social market economy is that the market is supreme but that market relationships must be guided by established patterns of trust and co-operation rather than driven by naked competition. The tendency for markets to produce socially inequitable outcomes is recognised and accepted as legitimate grounds for the state intervening to provide welfare services. Indeed, the promotion of social justice is, in many ways, regarded as essential to the efficient operation of the market economy. Thus, the social market economy is underpinned by a stress on the importance of consensus between social partners, achieved through collective bargaining, works councils and co-determination. Finally, the operation of the social market economy is dependent on a highly decentralised system of economic and political decision-making. The German social market has therefore fostered specific forms of relationship between companies and finance capital, between companies and suppliers and between

companies and their workforce. This system has recently been popularised as a model of “stakeholder capitalism” (Hutton, 1994; Goodhart, 1994).

Yet, carrying the massive costs of unification through the recession of the early 1990s, the German social market economy has run into problems. Since 1991 over 1 million jobs have been lost, growth rates have now fallen sharply and German industry has experienced a sharp decline in productivity levels (Norman, 1995; Goodhart, 1994). Unemployment recently rose to 4 million and Germany now seems to exhibit the same problems which finally undermined the Swedish model, most notably high wage costs, sharp increases in the level of outward direct investment and strong demands from employers for greater flexibility in the labour market. As Goodhart (1994) has noted these problems have meant that Germany is widely regarded as “the paradigm case of the crumbling Fordist model” (p.2). As such, the crisis of the German social market economy, if there is one, is as significant as the collapse of the Swedish social democratic model since “if Germany’s problems are calling into question its distinctive social market institutions, then European and American social democracy has a problem too”, (Goodhart, 1994, p.1).

While there can be no doubt that the German experience contains wider lessons for social democrats, it is equally true that the three cases discussed above contain important lessons for Germany, the adaptation of its social market economy and the strategies taken by the SPD. Arguably, there are two ways for Germany to avoid the Swedish scenario and these are in many ways represented by the British and the Danish responses. The British approach - deregulation of the labour market and a direct offensive against the trade unions - seems unlikely in a German context although it has recently gained some ground among employers, as well as within the governing CDU-FDP coalition. However,

Chancellor Kohl has taken great care to distance himself from a Thatcherite agenda recently stating “I never thought Mrs Thatcher’s example was a desirable one for Germany where we have a completely different set of social obligations”, (quoted in Norman, 1996).

On the other side, Germany’s trade union leaders have pointed to the possibility of a Danish-style solution.⁴ In November 1995, Klaus Zwickel leader of IG Metall (the massive metal-workers union) expressed his concern about the increased levels of outward investment and job losses in German industry. In response he proposed an ‘Alliance for Jobs’ based on creating more jobs by introducing greater flexibility in the labour market through measures such as extra leave in place of overtime. Examples of such arrangement already exist at plant-level in some parts of Germany. Zwickel has also promised to keep wage demands down in negotiations for 1997. Although employers expressed immediate caution about his proposal, it was otherwise met with support, including an initial welcome from Chancellor Kohl (Münchau, 1995, Dempsey, 1995).

Zwickel’s intervention was a timely offensive against the growing view that collective bargaining and consensus building have prevented the necessary adaptation of the German social market. Yet, despite months of tripartite negotiations, the proposal failed to make any headway. Instead, the government announced in April 1996 a 50-point programme for investment and jobs the centrepieces of which are DM20 billion reductions in social expenditure to eliminate the budget deficit, lowering the burden of non-wage costs, such as

⁴ By a “Danish-style solution” I do not mean that the German economy could be geared-up to produce specialist goods for international niche markets. The key lesson to be learnt from Denmark is not what is produced but how production is organised. While the Danes have come to organise production in a particular way due to the particular structure of the Danish economy, there is no reason why other economies should not organise production along similar principles.

social security contributions, on employers, cuts in personal and company taxation and incentives for small business. This programme has met with considerable opposition from German trade unions who have since dropped their conciliatory tone and threatened industrial action on the scale of the protests in France in December 1995.

Despite the apparent failure of the “Alliance for Jobs”, a new class compromise along similar lines appears to be the only real prospect for the survival of social democratic political economy in Germany. While the present government may have found it politically impossible to push the employers towards accepting the terms of Zwickel’s proposal, it may be the case that the unions are in part “defining the terms for a future deal with a social democratic successor”, (Hyman, 1996). In the meantime, the dilemma facing Germany’s social democratic system will continue to grow.

Conclusion: Towards a New Political Economy of Social Democracy

For social democrats a first glance at the contemporary European political scene presents much greater grounds for optimism than a decade previously, at least in terms of electoral politics. Social democratic parties are not about to be eclipsed as a major force in north European politics. Social democratic electoral strength remains strong and social democratic government is still prevalent throughout the north European states. Yet, it is clear that the conditions which fostered social democratic success in the post-war era no longer exist and that the transition from north European Fordism has laid to waste the social democratic regulatory regime which arose from the class compromise in the first half of this century. As such, it is difficult to pinpoint distinctive social democratic economic policy

anywhere in northern Europe and, in this sense, social democracy can only be said to have reached a point of crisis.

The forging of a new social democratic political economy is therefore essential. Paradoxically, the source of such a programme may lie in the original, pre-reformist objectives of social democratic parties. As Przeworski (1985) notes, when social democrats accepted Keynesian full employment policy they dropped a central objective of socialism - freedom from wage slavery. The apparent ineffectiveness of Keynesianism today means that fresh policies are required to tackle unemployment and distribute wealth. Following the examples of the Danish and German unions, measures to reduce working-time in exchange for wage restraint must be at the heart of such a project. Similarly, the role and definition of the social wage requires re-examination. The introduction of a citizen's income scheme, which would maintain a dynamic market economy but ensure that its benefits are widely distributed could be used to underpin greater flexibility in the labour-market with a level of minimum security (van Parijs, 1995; Andersen and Camiller, 1994).

What is clear is that collective bargaining will remain essential to the establishment of any alternative political economy. Under the prevalent conditions of globalisation and capitalist restructuring, it is also likely that the conclusion of any new social democratic compromise will depend on the co-ordination of policies at a European level. Without agreement between the European states there is always a danger that individual states will seek to gain competitive advantages through the imposition of longer hours, lower pay and labour-market deregulation. The nascent EU collective bargaining structures will therefore be critical in providing over-arching support for nationally concluded compromises.

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