

Social Democracy or Neo-liberalism? The Cases of Germany and Sweden

INTRODUCTION

The onset of economic globalisation has helped give rise to a sense in which there are no choices when it comes to public policy: neo-liberalism appears unrivalled. After the fall of the Berlin Wall in 1989, with the collapse of the Soviet Union imminent, American philosopher Francis Fukuyama advanced his famous ‘end of history’ thesis. He proclaimed ‘an unabashed victory of economic and political liberalism’ and the ‘total exhaustion of viable systematic alternatives to Western liberalism’. Liberal democracy, he suggested, might be the ‘end point of mankind’s ideological evolution’ and the ‘final form of human government’ (Fukuyama 1989, 3, 4, 14). Acceptance of elements of his influential thesis was not confined to the conservative side of politics (e.g. Blackburn 1991). British socialist Perry Anderson argued in 2000 that, for the first time since the religious wars that erupted in the 16th century (known as the ‘Reformation’), ‘there are no longer any significant oppositions – that is, systematic rival outlooks’. David Harvey (2005, 2, 3) writes of the ‘emphatic turn towards neoliberalism in political-economic practices and thinking since the 1970s’ and how virtually ‘all states’ have endorsed elements of neo-liberal theory and policies.

Political parties in the social democratic tradition have historically stood in opposition to neo-liberalism. However, in recent years they, too, have embraced neo-liberalism. Taking the examples of social democratic parties in Germany and Sweden as illustrative of a broader trend, this chapter argues that social democracy does not offer an alternative to neo-liberalism. Structural pressures related to world economic decline and globalisation prevent the enactment of traditional social democratic policies, which were predicated on specific circumstances that no longer exist. The result is that at the level of elite parliamentary politics, neo-liberalism seems to be the only model of government available. Nonetheless, while neo-liberalism is unchallenged at the level of elite politics, this is not so in wider society. The emergence of the so-called ‘anti-globalisation movement’ in the late-1990s was accompanied by intellectual critiques of global capitalism and parliamentary democracy. There are also signs of radical political parties emerging to occupy some of the ground vacated by social democracy’s acceptance of free market.

Social Democracy and Neo-liberalism

Social democracy comes in various national, political and ideological forms. There are, however, numerous features common to all. Fielding (2003, 11) argues that:

Mainly based in the manual working class, social democrats initially sought to improve their constituents’ lot by contesting elections, winning office and using

power to extend the state ownership and regulation of capitalism. Their object was to make the economy operate more efficiently and in the interests of the majority: by using the opportunities offered by political democracy to influence economic activity they hoped to make society more equal.

National differences aside, ‘all social democrats sought to transform free market capitalism into a more regulated system they described as socialism’ (Fielding 2003, 60). While sometimes influenced by Marxist ideas, they have generally opposed those in the Marxist tradition who have argued that existing political structures cannot resolve capitalism’s inequalities and injustices, and that in fact a revolutionary transformation of society is necessary to usher in new political and economic structures. Lars Klingbeil (2005) of the German Social Democratic Party (Sozialdemokratische Partei Deutschlands (SPD)) argues that the key issue for social democrats is ‘the role of the nation state, how we can guarantee that the state is an actor...and can control the market’. The Swedish Social Democratic Party (*Socialdemokratiska Arbetarpartiet – SAP*) has allowed greater scope for market forces but shares with its international siblings a belief in government action to achieve equality and social justice. According to SAP think-tank director Anne-Marie Lindgren (1999, 48), it has historically supported a ‘mixed economy’, a universal welfare state, and an active labour market policy.

The ‘golden era’ of social democracy occurred in the quarter century after World War Two. During this period, many social democrats relied heavily on the ideas of the British economist John Maynard Keynes, who argued that in the interests of economic growth and full employment the state should establish:

certain central controls in matters which are now left in the main to individual initiative... The State will have to exercise a guiding influence on the propensity to consume partly through the scheme of taxation, partly by fixing the rate of interest, and partly, perhaps, in other ways... I conceive, therefore, that a somewhat comprehensive socialisation of investment will prove the only means of securing an approximation to full employment... (Keynes 1973, 377, 378).

While it is debatable to what extent the conscious application of such policies contributed to the consistently high economic growth rates in the post-war years (see further below), social democrats seized upon Keynesian ideas because they allowed for an expansion of the role of government and rejected the notion that the economy worked best when the free market was left to its own devices. Crucially for social democrats, Keynes (1973, 377, 378) rejected the adoption of a system of ‘State Socialism’ that ‘would embrace most of the economic life of the community’. This appealed to social democrats who did not want to be associated with communists. Because Keynesianism was the dominant ideological approach to public policy in the post-war era, social democrats were able to support *both* mainstream economic policy and government intervention to raise living standards (Scharpf 1991, 23).

Thus while a certain suspicion of capitalism is inherent to social democracy, it is the suspicion of an unrestrained capitalism not forced by government – through policies such as higher taxes on the wealthy, generous welfare provision, public ownership, and legal protections for employees – to meet certain standards of social justice. In practice, however, social democrats have frequently failed to implement such policies in government, and have instead ended up enacting policies beneficial to the wealthy.

The most persuasive explanation for this failure has come from those in the Marxist tradition. The German philosopher and political economist Karl Marx described government as a ‘committee’ representing the interests of big business. Following on from this Polish Marxist

Rosa Luxemburg, in her attack on the German social democrat Eduard Bernstein, argued that the state was not a neutral political player able to rise above social conflict, but rather a 'representative of capitalist[s]', and therefore its 'so-called social reforms are enacted in the interests of capital' (1989, 41).¹ Even some theorists from the 'pluralist' tradition have recognised the 'privileged' position of business in capitalist society by emphasising governments' 'structural dependence' on the performance of big business for economic growth, tax revenues and employment generation, which in turn compels them to introduce policies conducive to business profitability. Sections of business may lose out, but the business system as a whole predominates irrespective of which political party is in power (Lindblom 1977).

Social democrats fail to achieve reforms because they overlook these facts of political life. British Marxist Alex Callinicos identifies as one of social democracy's major flaws its separation of politics from economics: the belief that decisions can be made in the sphere of parliament and law-making (politics) independently of the daily acts of business investment and production (economics). The flaws of this approach are revealed all too starkly when social democrats gain power:

They are confronted with the following dilemma. Reforming capitalism necessarily means interfering either directly or indirectly with the economy. Even limited improvements in social welfare imply increases in public expenditure and taxation. Such interference may well produce adverse reactions from big business – for example, the flight of capital from the country – which will weaken and may even destroy the government. But if the social democratic ministers therefore avoid reforms for fear of annoying the bosses, then parliamentary democracy turns out after all to be incapable of even moderating the inequities of capitalism (Callinicos 1997, 17).

From this flow the inevitable charges of betrayal from their supporters in the trade union movement. It is therefore not new for social democratic governments to implement policies that both favour business and disappoint the working class. What is novel is social democrats' refusal to even try to reform capitalism, and their support instead for 'neo-liberal' or free-market policies. Harvey (2005, 2) outlines the essence of neo-liberalism thus:

Neoliberalism is in the first instance a theory of political economic practices that proposes that human well-being can best be advanced by liberating individual entrepreneurial freedoms and skills within an institutional framework characterized by strong private property rights, free markets, and free trade. The role of the state is to create and preserve an institutional framework appropriated to such practices.

Social democrats' embrace of neo-liberalism differs in both degree and form. Magnus Ryner, for example, argues that the SAP has pursued policies consistent with its occupation of the 'left pole' of neo-liberalism (Ryner 2004, 98, 102). The type of policies it has implemented are also different from social democrats elsewhere. Typically involved in most cases, however, is support for elements of what American economist John Williamson coined the 'Washington Consensus'. This consisted of ten neo-liberal policy areas: fiscal austerity, tax reform, free trade, privatisation, deregulation, public spending priorities, interest rates set by markets, competitive exchange rates, foreign direct investment, and property rights (cited in Callinicos 2003, 2). While a reduced role for government is the outcome of nearly all these policies, as Robert Pollin argues neo-liberals may support free market policies at one time, but at a different time embrace policies that conflict with market principles so long as they meet the needs of big business (Pollin 2003, 8).

The Neo-liberalisation of German and Swedish Social Democracy

One can see this social democratic embrace of neo-liberalism in the policies of German and Swedish social democracy. Paterson (1986, 127) has argued that, because of the SPD's age, position, size and international connections, in attempting 'to assess the future of social democracy no party is more important than the SPD'. Since its origins in the late-19th century as a party that debated 'reform versus revolution' (Waldman 1958), the German SPD has moved far away from this traditional relationship to the working class and socialism and embraced market economics. The SPD in 1959 at the town of Bad Godesberg adopted a policy of supporting 'as much market as possible, as much planning as necessary'. The SPD-led government in the 1970s and 1980s did implement more liberal economic policies but it still pledged to protect the welfare state right up until the heralding of the *Neue Mitte* ('New Centre') prior to the 1998 federal election. As Meyer comments, this constituted 'a significant shift in the SPD's programme' (Meyer 1999, 25). The *Neue Mitte* entailed fostering close relations with business leaders, supporting smaller government, and accepting the political constraints of globalisation (Meyer 1999, 27-30).

After taking power in coalition with the German Greens after the 1998 election, the SPD implemented significant neo-liberal policies. It made cuts to welfare spending, reduced corporate tax rates, abolished capital gains and wealth taxes, and effectively reduced the pension rate (Padgett 2003, 45; Kitschelt 2003, 137; Conradt 2003, 230). Regressive and pro-business tax changes were based on the neo-liberal notion that greater social inequality generates higher levels of employment and investment (Eissel 2002, 147-153). The 2001 pension reform involved a 'shift by the SPD, to a publicly supported private pension system' (Erb 2001, 195). Prior to the 2002 federal election, the SPD-led Government began implementation of the Hartz labour market reforms, named after the recommendations of a commission headed by Volkswagen executive Peter Hartz. These reforms included the privatisation of the state-run employment agency, reductions in unemployment benefits, and regulations requiring the unemployed to accept any work offered to them (Henning 2006).

The neo-liberal program was continued after the SPD retained power at the 2002 election. At the centre of its policies was Agenda 2010, a package of broad-ranging reforms to areas such as the economy, labour market and health (Federal Government of Germany 2004). The package included legislation to make it easier for firms to dismiss worker, cuts to health, dental care and other provisions, and new limits to unemployment benefits (Camerra-Rowe 2004, 13-16). Complementing these policies, the government implemented the remaining elements of the Hartz labour market reforms. It was public opposition to these policies among many social democratic supporters that saw the SPD-Green Coalition defeated at the 2005 federal election (see Lavelle 2007). SPD parliamentarian Dietmar Nietan (2005) conceded that after many years of attacking the conservatives for neglecting social justice '[in] the end we did the same, not so hard but in the same direction and I think that's disappointed [many people]'.

Like their German counterparts, the Swedish social democrats have embraced neo-liberal policies in recent years. Swedish social democracy once represented to many international observers the pinnacle of social democratic achievement (eg Crosland, in Castles 1978, xi). The SAP's long period in government from 1932-1976 saw the development of the Swedish model of so-called 'cradle-to-grave' welfare capitalism, distinguished by its generosity and universality. In the quarter-century after 1945, living standards doubled alongside the enactment of reforms such as a national health service, supplementary pensions, child benefits, sickness insurance, and public housing programs (Tilton 1990, 166).

In recent decades, however, social democrats in Sweden have implemented significant neo-liberal policies to the extent that many believe the 'Swedish model' to be dead and buried. The SAP's neo-liberal direction can be traced back to the policies it introduced after regaining

power in 1982, including a redistribution of income from labour to capital, spending cuts, the deregulation of financial markets, a prioritisation of profitability by state enterprises, and the privatisation of some state firms (Huber and Stephens 1998). According to Ryner (2004, 98, 99), the removal of controls over capital markets in 1985 marked the beginning of Swedish neo-liberalism. Schwartz (1994) argues that Finance Minister Kjell-Olof Feldt's department (1982-90) 'followed a typical neoliberal line'. The government's regressive tax reforms were modelled on those introduced by the conservative Reagan Government in the US (Pontusson 1994, 35, 36).

In the early 1990s the SAP adopted 'a whole series of new policy initiatives that departed from traditional Social Democratic policy commitments and...represented an embrace of bourgeois policy prescriptions' (Pontusson 1992, 307, 308). After failing to get parliamentary approval for Feldt's plans to freeze wages and prices and ban trade union strikes in 1990 (Hancock 2003, 390), the SAP opted instead for cuts to welfare entitlements and other forms of public spending (Pontusson 1994, 37). When the SAP returned to power in 1994 after three years in Opposition, then-SAP Prime Minister Ingvar Carlsson 'in essence...affirmed a neoliberal reorientation of public policy' (Hancock 2003, 393). A package of neo-liberal measures was introduced, including tax increases and spending cuts; labour market outcomes that included 'responsible pay agreements'; and structural changes to economic policy, including independence for the central bank and limits on public expenditure (Persson 2005). The SAP scaled back compensation rates for parental leave and for sickness and unemployment benefits, it halved benefits for orphans, and oversaw significant cutbacks and a decline in the quality of other social services (Verlin Laatikainen 2000, 162).

Thus, while Sweden's unique welfare state has not yet been dismantled, the policy direction in recent years has been unmistakably neo-liberal. Finance Minister Par Nuder (2004) conceded that one distinction between social democrats and conservatives in Sweden was 'erased' when 'we social democrats [were] influenced by the neo-liberalism of the 1980s without being fully aware of it'. A widespread sense of disillusionment with social democracy's abandonment of traditional policies in favour of neo-liberal ones has contributed to the SAP's recent electoral problems, including its defeat at the 2006 Swedish election (Lavelle 2007).

While so far we have focussed on the embrace of neo-liberal policies in Swedish and German social democracy, the trend is much broader. Ali (2005, 7) argues that European social democrats in general have 'promoted neo-liberal policies with the fervour of new converts'. Social democrats have also embraced neo-liberalism in countries outside of Europe, such as Australia (see Lavelle 2005). Perhaps some might argue that social democracy is not yet dead because of recent developments in Latin America, in particular the reforms of Hugo Chavez in Venezuela, including the nationalisation of some sectors of the economy and programs to reduce poverty. In some senses, this supports the argument of this chapter because Chavez's reforms have been driven by strong economic growth and large oil revenues. It is also important to realise, however, that Chavez's reforms have been very limited. One Venezuelan sympathetic to Chavez estimates that the reforms have touched only around 25 per cent of the population. He claims that the 'whole picture' is one of 'marginalisation, of unemployment, of exclusion, and [the] reforms have not reached many of these' (Denis 2006). An additional problem with seeing Chavez as representing a revival of social democracy is the absence of democracy under Chavez: witness his recent decision to seek power to rule by 'decree' without the need to gain approval from the country's legislative body, and to become 'president for life' (BBC 2007). Finally, it is notable that the traditional social democratic parties of the advanced capitalist world appear to have shown no interest in Chavez or his policies.

While social democrats have embraced neo-liberal policies, some will argue that they are still social democratic. Modern social democrats, according to this argument, operate in different

contexts, face different pressures and circumstances, and so their policies are different. The problem with this argument is that it could be used to claim that even a completely free-market agenda indistinguishable from the policies of those on the right-wing of politics is still social democratic because it has been developed by social democrats in different circumstance from those which shaped post-war social democracy. This position is in fact akin to the social democracy is ‘what social democratic parties do’ position, a position which of course requires no argument in its defence (Morrison, cited in Hay 1999, 56). If social democrats no longer stand for policies such as higher taxes on the wealthy, public ownership, strong labour market regulations, a generous welfare state, and significant spending on areas such as health and education, and have instead embraced free market policies, then they can be social democrats only in name.

The question arising from all this, however, is whether this is just a temporary blip or something more permanent. The evidence suggests the latter is more likely. In the following we examine two sources of pressures commonly thought to undermine social democracy: globalisation and economic decline. Other factors have played a role in the undermining of social democracy, including the pressures generated by the European Union, of which both Germany and Sweden are members. However, for the purposes of this chapter we shall concentrate on the above two structural pressures. Ideological pressures emanating from the dominance of neo-liberal ideas about public policy also should not be discounted, but this is a subsidiary factor given that it was the end of the post-war boom in the 1970s that created a climate more receptive to neo-liberal ideas (Swank 2002, 234, 235). The argument that traditional social policies were abandoned for electoral reasons is similarly superficial, and is dealt with elsewhere (Lavelle 2007). Of the two structural factors we consider, it is argued that economic decline is the most important.

Globalisation

The political consequences of economic globalisation – in particular, greater capital mobility, rising foreign investment and increased international trade – for social democracy has been the subject of some debate. John Gray nominates globalisation as the key reason for what he regards as the death of social democracy: ‘[T]he new global freedom of financial capital so hems in national governments as to limit severely, or to rule out altogether, traditional social-democratic full-employment policies... [It] demolishes the economic foundations of social democracy’ (Gray 1996, 12, 13, 26). There are, however, many who contest such statements and the assumptions underpinning them (e.g. Garrett 1998). There are, indeed, serious problems with the arguments of Gray and others, for while it is true that the negative reactions of global financial markets can devastate governments’ policy programs, this is not new: social democrats since at least the 1930s have fallen victim to pressure from the flight of capital (Callinicos 2001, 27). The ‘footloose’ and transnational nature of capital also is exaggerated (Hirst and Thompson 2003, 102, 103). The obstacles to most firms relocating quickly mean that states retain some degree of leverage over corporations (Harman 1996, 19). The globalisation argument also tends to ignore the fact that neo-liberal policies helped give rise to globalisation. Policies such as free trade, the liberalisation of foreign investment regimes, and capital market deregulation, have been critical to increased economic integration.

Commentators are correct to highlight these flaws in the globalisation argument. However, often neglected are the views of social democratic politicians themselves, who appear to accept that globalisation puts pressure on governments to implement neo-liberal policies that promote business investment. This is evident in the cases of both Germany and Sweden. Former SPD Chancellor Gerhard Schroeder claimed in 2005 that ‘globalisation and the economic changes it has caused’ meant Germany was ‘no longer’ a country in which there ‘was sufficient room for redistributing wealth’ (Purvis and Boston 2005). Another SPD

politician described globalisation as the ‘biggest challenge’ for parties on the left because any attempt to put forward distinctive platforms based around traditional social democratic policies would visit capital flight and upheaval on the economy (von Weizsaecker 2005). Fellow SPD parliamentarian Dietmar Nietan (2005) argues that we cannot ‘give the same answers that you gave 20 or 30 years ago’. Globalisation promotes a kind of ‘beauty contest’ in which there is competition between nations as to ‘who creates the best conditions for foreign investment for new enterprises’. Furthermore, it instils fear in governments ‘that in other countries they [might] create perhaps better conditions’.

Swedish social democratic politicians offer very similar arguments about the consequences of globalisation. One SAP parliamentarian acknowledged that globalisation puts ‘pressure on high tax countries’ and those with ‘very well built social system[s]’ such as Sweden (Skoldestig 2005). According to Par Axel Sahlberg, ‘what you see is companies making global decisions, moving factories and using cheap labour and so on in other parts of the world and that means in a way that we are permanently challenged by neo-liberalism’ (2005). Similarly, former SAP Prime Minister Goran Persson in 2005 explained that: ‘Globalisation is a powerful force. We must learn to live with increased competition and the rapid changes it involves’ (Persson 2005).

Of course, we need to recognise the political interests underlying such rhetoric. If globalisation is an irresistible force that makes neo-liberal policies inevitable, then social democratic politicians are not to blame. If the globalisation argument does perform this function then we can only speculate as to the real reasons for the implementation of neo-liberal policies for which it provides politicians with political cover. Either way, because of the weaknesses we have highlighted in the globalisation argument, it does not provide a very persuasive explanation for why social democrats embraced neo-liberal policies. The collapse of the post-war boom in the 1970s provides more satisfactory answers to this question.

Economic Decline

In the post-war period, the world economy expanded at an unprecedented rate. As Kidron wrote at the peak of the boom, ‘the system as a whole has never grown so fast for so long as since the war’ (1970, 11). Top economists proclaimed the end of the boom-slump cycle (Harman 1984, 10). It was thought that mass unemployment was a thing of the past because of Keynesian policies (Stewart 1967, 251, 252). Any recessions that did occur were mild and viewed as errors of economic management rather than a natural functioning of the system (Windschuttle 1979, 19; Whitwell 1986, 3).

The plunge into recession in the 1970s after a quarter century of continuous growth therefore came as a major shock. The International Monetary Fund’s (IMF) managing director reported in 1975 that the falling output and rising unemployment were ‘unprecedented in the postwar period as to both magnitude and duration’ (cited in Hayden, 1977, 7). Tables One and Two below reveal the much lower economic growth rates from that point on.

Table One: Economic Growth in Sweden, Germany, and the World, 1960s-1990s (annual average per cent)

	1960s	1970s	1980s	1990s
Sweden	4.6	N/A	2.0 ²	2.0 ³
Germany	4.4 ⁴	2.1 ⁵	2.1 ⁶	1.4 ⁷
World	5.0	3.6	2.8	3.0 ⁸

Sources: (Thurow 1996, 1; IMF 2001; Swedish Institute 2004; Silva 2003).

Table Two: Economic Growth Rates for Six Major Nations (percentage increase per year)

<i>Country</i>	<i>1950-73</i>	<i>1973-97</i>
USA	3.8	2.5
UK	3.0	1.8
Germany	6.0	2.1
France	5.0	2.1
Italy	5.6	2.4
Japan	9.2	3.3

Source: (Kotz 2001, 94)

The economic decline has continued up to the present day. Global economic growth in 2003 was less than half the *worst* figure for any year between 1960-73 (Harvey 2005). Despite hype about the success of the US economy at the end of the 1990s, Kidron notes that the famed ‘Goldilocks’ economy (‘not too hot, not too cold’) could post an average annual growth rate of just 2.2 per cent, compared to 3.5 per cent and 4.5 per cent during the 1950s and 1960s respectively (2002, 92). While the advanced capitalist world – including Western Europe, North America, Australia, New Zealand and Japan – posted an average growth rate of 6.04 per cent per year in the 1950s and 1960s, this fell to 2.69 per cent per year in the 1970s, 1980s and 1990s (Kidron 2002, 92). Individual nations and regions have experienced short-lived booms but the global picture is one of continuous decline.

Historically economic conditions have been critical to viability of social democratic reforms. The German social democrat Karl Kautsky, for example, argued in 1928 that: ‘The more the capitalist mode of production flourishes and thrives, the better the prospects of the socialist regime that takes the place of the capitalist one’ (cited in Callinicos 1997, 17). Head and Patience (1979, 5) explain that because a ‘reform government’s programme is likely to be very expensive’, in times of economic downturn there are ‘few opportunities for expensive new reforms’, so a social democratic government is ‘obliged to become more moderate’. More broadly, Pierson (2001, 116) comments that, ‘securing the maximum possible levels of employment, improving social provision and finding forms of compromise with private investors has always been premised on a growing social product’.

In economic recessions sufficient money exists to fund welfare and help the poor. But reforms in these circumstances are more threatening to large firms because they need to be funded by higher taxes on profits and the wealthy, rather than the stronger revenues and incomes generated by the high economic growth that accompanies booms. The influential British social democrat Anthony Crosland correctly surmised that it would be easier to redistribute wealth in boom conditions, and that higher income earners and others would be

more willing to accept higher taxes if they thought such policies were contributing to stronger economic growth from which they in turn benefited (Hickson 2004, 123). As Callinicos (1997, 17) puts it, high profits 'sweeten the pill of reform for the capitalists'.

Not surprisingly the most significant social democratic reforms occurred during the post-war boom, which provided the material economic base for these reforms. Thus when the boom ended there were major repercussions for social democrats. The shift in economic conditions in the mid-1970s was conducive to the neo-liberal policies to which social democrats had traditionally been opposed: reduced economic growth rates rendered social programs relatively more expensive, and therefore vulnerable to desires to reduce the size of government, creating a 'race to the bottom' in labour law deregulation, corporate tax reduction, and welfare retrenchment. The poor results of government responses to the 1970s recessions (Harris 1983, Ch.3), served only to bolster the neo-liberal case for minimising government intervention in the economy.

Social democrats also suffered from the damage done to Keynesianism, which was badly discredited by the return of recession. Some have argued that Keynesian measures were marginal factors in the success of the post-war economy compared to the rebuilding of the economy after the devastation of the war, and the impact of high arms spending during the Cold War.⁹ Nevertheless, the return of crisis to the world economy in the 1970s revealed the inability of Keynesianism to prevent recession in the long-term. Keynesian measures initiated in response to the slump had no impact, or simply made matters worse (see Harris 1983, Ch.3). Furthermore, the existence of high inflation, low economic growth and rising unemployment ('stagflation') constituted an 'anomaly' in the sense described by the scientist Thomas Kuhn, preparing the way for a paradigm shift in policy-making approaches (Hall 1993, 284, 285).

As well as depriving social democrats of the economic base on which their traditional policies rested, the discrediting of Keynesianism saw social democrats lose the post-war luxury of not having to choose between orthodox economics and government intervention to raise living standards (Scharpf 1991, 23). Social democrats now had to choose to be responsible managers of capitalism or advocates of improvements in workers' living standards, but not both. Their choice – consistent with social democracy's acceptance of the limits of existing political-economic institutions – was to be successful managers of capitalism.

The Impact on German and Swedish Social Democracy

After discussing the consequences of the downturn on social democracy more broadly, we can now turn specifically to our two country case studies. In Germany, the SPD's policy direction over the past 30 years has to be seen in the context of the country's economic decline. Compared to an average of 7.7 per cent in the period 1950-61 and 4.4 per cent between 1961-73, growth in West Germany between 1973-89 was 2.1 per cent, while in reunified Germany between 1992-2002 it averaged a mere 1.4 per cent per year (Silvia 2003, 1, 3; Funk 2000, 20). In 2003, it was observed that for 'the first time since the Second World War, the economy has been essentially stagnant for three straight years' (Silvia 2003, 1, 3).

There is evidence to suggest that the international economic recession that ended the post-war boom was the immediate impetus for neo-liberal economic policies implemented by the SPD-led government during the 1970s and 1980s. When Germany was hit hard by the recession, 'the SPD...turned increasingly toward economic liberalism, and introduced a series of austerity policies' (Jahn and Henn 2000, 31). The SPD was out of power between 1982 and 1998. The neo-liberal policies of the SPD-Greens Coalition that came to power in 1998 have similar roots in the deep economic problems of Germany post-unification (see above). The SPD thus argued in a 2003 policy document that the 'extent of...the dismantling of social

services...will ultimately be determined by the extent of economic growth in Germany and how the fruits of this growth are distributed' (SPD 2003, 4, 7). The SPD also believed that its neo-liberal reforms were necessary to put Germany 'back on the road to growth'. It further argued that 'economic growth over the past three years has remained well below the forecasts, indicating that the reforms did not go far enough and that there is a need for more far-reaching measures... This is the thrust of Agenda 2010' (SPD 2003, 7).

The reforms aim to attract business investment. A federal government paper stated in 2004 that the agenda policies were aimed at making Germany 'successful as a strong business location' (Federal Government of Germany 2004, 5). Higher business investment, it was hoped, would ease the fiscal pressures generated by economic slump. The SPD noted in 2003 that: 'Tax revenue is dwindling. Tax revenue in 2002 dropped by around 1.2 per cent or 5.3 billion [Euros] compared with 2001. This trend continued in the first quarter of 2003'. At the same time, however, it pointed out that social security spending in the federal budget had risen from 4.1 billion Euros in 1961 to 106.9 billion in 2002 (SPD 2003, 3, 4, 2). In this context, the agenda health reforms were projected to save 23 billion Euros per year by 2006, helping to 'ensure that Germany's health care system remains financially viable in the future' (Federal Government of Germany 2004, 14).

While Sweden's economic problems have been less acute, they have been sufficient to push the SAP to make inroads into its famously generous welfare state. Growth in Sweden averaged just two per cent annually in the years 1980-2003, compared with an average of 3.3 per cent in the 1950s and 4.6 per cent in the 1960s (see Table One). Economic growth fell by five per cent in the years 1991-93 (Vartiainen 1998, 35). While this coincided with an international recession, Sweden was especially hit hard (Swedish Institute 2004). According to the IMF, not only was the 1990s economic crisis in Sweden longer and more severe than its predecessor in the 1980s, it constituted the 'deepest and longest recession since the 1930s', and challenged the very viability of the Swedish welfare state (Lachman, Bennett, Green, Hagemann, & Ramaswamy 1995, 1-3).

Sweden's major social reforms – including the introduction and expansion of primary and secondary education, public housing policies, labour laws, hospital care, and care for the elderly – were introduced during the 'harvest period' of the 1940s through to the early 1970s (Carlsson & Lindgren 1998, 92, 93). Ryner argues that the post-war boom, and high demand for Swedish exports in particular, put a lid on the conflicts and tensions in Swedish society, allowing the extensive development of the universalist welfare state (Ryner 1998, 34).

When the boom ended, the process of reining in the welfare state began. Kesselman (1982, 416) argued in the early 1980s that 'the SAP has moved to the right in response to the international economic crisis'. The limits to the Swedish social democratic model, which was based on 'capitalist modernization and expansion on terms that generated benefits for the working class', were 'reached when economic growth slowed...' (Kesselman 1982, 434). We saw earlier the major neo-liberal measures taken by the SAP in the 1990s. These have to been in the context of the aforementioned deep slump in Sweden in the early part of that decade. An IMF report noted that the necessity of reform of the social security system was not acknowledged in Sweden 'until the adverse budgetary effects of the most recent economic downturn [early 1990s] became apparent' (Lachman, et al 1995, 31).

The relationship between declining economic growth and the cuts to welfare was evident in then-SAP Prime Minister Goran Persson's (2004) comment (made in a European context) that 'we are so heavily dependent on economic growth to maintain our European social model'. Social democrats Carlsson and Lindgren (1998, 77) assert that social reforms require the 'money to finance them with! If the economy turns down it is not possible to maintain the level of welfare benefits'. SAP Finance Minister Par Nuder in 2004 referred to the 'time

when growth was negative in the early nineties' and the 'devastating consequences for security and justice that zero growth society caused' (Nuder 2004).

It is clear from an examination of these two countries that social democracy's neo-liberal policy direction was a response to economic crisis. Social democrats in much of the advanced capitalist world embraced neo-liberalism for many of the same reasons (Eley 2002, 7). The inability of the world economy to emerge from the crisis that first engulfed it in the 1970s virtually precludes social democrats returning to egalitarian economic and social policies. The post-war boom of the 1950s and 1960s – and *ipso facto*, the expansive programs of those years – was the result of peculiar geo-political and historical circumstances. According to Marx, there is a tendency towards a falling rate of profit (determined by the ratio of profit to investment in capital) under capitalism, a tendency for which there is few offsetting factors. Offsetting factors during the post-war boom included the impact of the destruction of capital during the war – and the way in which this allowed economies to re-expand after the war – and the impact of high arms spending during the Cold War between the Soviet Union and the United States. These were successful in counteracting the falling rate of profit only temporarily, however, before the rate began to fall again in the late-1960s in the lead-up to the end of the boom. Profit rates have continued to fall in the decades since then (Brenner 2002). Moreover, little short of a large-scale nuclear war or an ecological catastrophe that wipes out much of human civilisation would be likely to create the conditions for a world economic boom akin to that of the post-war era.¹⁰ If these are the only circumstances in which the economic base of social democracy could be restored, then the prospects of it ever again representing an alternative to neo-liberalism hardly look promising.

Is There Anything Else on Offer?

It has been clearly shown that social democracy is not an alternative to neo-liberalism, and it is highly unlikely that it can provide such an alternative in the future. This does not, however, preclude the development of alternatives to neo-liberalism beyond social democracy. Arguably, an alternative has been put forward by the so-called 'anti-globalisation' movement that first received headline news coverage in Seattle in November-December 1999, where tens of thousands demonstrated against the WTO talks held there (Danaher and Burbach 2000). While composed of diverse groups with particular grievances, the movement can more accurately be characterised as 'anti-capitalist' because of the way in which it identifies the system of global capitalism as the root cause of most of the world's problems, and is able to connect key issues such as environmental sustainability, war and the exercise of corporate power (Callinicos 2003, 14). As Ashman (2004) argues, the movement is also much more internationalist than the right-wing opponents of globalisation with whom it is often conflated. Importantly, along with the demonstrations at meetings of international organisations such as the WTO and the IMF came the resurgence of intellectual critiques of global capitalism and liberal democracy, and the positing of alternatives (eg Albert 2003; Monbiot 2004; Danaher and Burbach 2000; Bello 2002). As Burgmann (2004, 203) argues, the movement represents 'the most successful response' to Fukuyama's thesis yet.

Another challenge to neo-liberalism may arise in the form of radical political parties. While it was noted earlier that neo-liberalism has taken hold of mainstream party politics, in recent years some minor radical parties that reject neo-liberalism have gained ground in parliamentary elections. In many cases they capitalise on the disillusionment with social democracy. The rise of the Greens in Australia and the Left Party/PDS (Die Linkspartei/Partei des Demokratischen Sozialismus) in Germany are examples of this process. The latter described itself as a 'catchment tank' for disenchanted SPD voters and opponents of neo-liberalism. Former SPD leader Oskar Lafontaine became a leading member of the Left Party (Bhatti 2005). At the 2005 federal election, it won almost nine per cent of the vote and became the fourth largest party in the German lower house of parliament by winning 54

seats. It campaigned for a withdrawal of German troops from Afghanistan, for higher wages in Germany, and aimed to make pensioners 'once again proud to walk the streets'. It also called for: higher taxes on corporations and the wealthy and on stock market transactions; increased welfare spending and subsidies; the scrapping of the SPD's labour and welfare reforms, which it described as 'legally decreed poverty'; and a shorter working week (Furlong 2005; James 2005). Political commentator Friedhelm Hengsbach described Lafontaine and fellow Left Party leader Gregor Gysi as 'alternatives to politicians who say there are no alternatives' (Bhatti 2005).

These movements and parties do face significant challenges. The anti-capitalist movement currently appears to be weak in some parts of the world (in Australasia and North America, for instance) but stronger in others (Latin America and Europe). It also confronts important political questions about, among others, what it stands for, the nature of the capitalist state, and how significant social change can be achieved (Callinicos 2003). Radical parties such as the Left Party in Germany face similar challenges and questions about strategy and political agency. In order to succeed in the long-term they will need to learn the lessons from social democracy's inability to achieve major social change. However, the threat from global warming and ecological degradation make the success of these alternatives to neo-liberalism all the more urgent and necessary.

Conclusion

Neo-liberalism has dominated government policy-making approaches in recent decades. This chapter argued that social democracy has largely embraced this neo-liberal approach under the pressure of declining economic conditions since the 1970s. The inability of the world economy to return to the economic conditions on which previous social democratic reforms were based suggests that social democracy is not likely to represent an alternative to neo-liberalism in the future. The evidence suggests that any such alternatives will emerge outside the social democratic tradition. There are some signs of this occurring in the intellectual critiques of global capitalism and liberal democracy put forward by the anti-capitalist movement, and in the policies of some radical parties. However, it is too early to say whether or not these challenges to neo-liberalism will succeed.

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¹ Of course, this statement preceded the wave of reforms of the post-war period. But even welfare reforms, for example, were by no means exclusively enacted in the interests of vulnerable sections of

society, with capital benefiting at the very least from the social and economic stability they helped to engender.

² This growth rate average is for 1980-2003 (Swedish Institute, 2004).

³ See previous footnote.

⁴ Figures are for West Germany, 1961-73 (Funk 2000, 20).

⁵ Figures are for West Germany, 1973-89 (Funk 2000, 20).

⁶ Figures are for West Germany, 1973-89 (Funk 2000, 20).

⁷ Figures are for 1992-2002 (Silvia 2003, 1, 3).

⁸ Based on figures in IMF (2001).

⁹ For an elaboration of the theory of the 'permanent arms economy', see Kidron (1970, Ch.3) and Harman (1984, Ch.3).

¹⁰ The preceding analysis is based on Marx's theory of the falling rate of profit (Marx 1981, esp. Ch. 2). For a commentary and explanation of this theory and its relevance to understanding the post-war boom, see Harman (1984) and Kidron (1970).