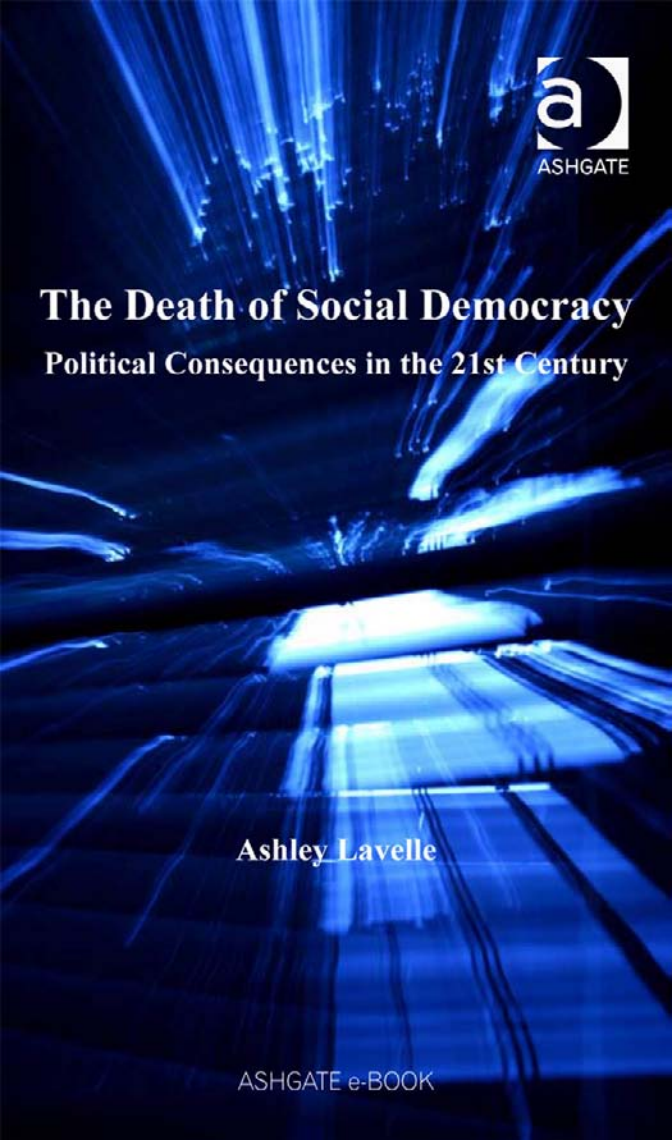
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The Death of Social Democracy
Political Consequences in the 21st Century
Ashley Lavelle
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# THE DEATH OF SOCIAL DEMOCRACY

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# The Death of Social Democracy

## Political Consequences in the 21st Century

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ASHGATE

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# Contents

# List of Tables

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# Preface

This book emerged from a project commenced in 2004 about the future of social democracy, principally involving four country case studies: the ALP, the British Labour Party, the German Social Democratic Party [*Sozialdemokratische Partei Deutschlands* (SPD)], and the Swedish Social Democratic Workers' Party [*Socialdemokratiska Arbetarpartiet* (SAP)]. The book, however, should not be read merely as a scholarly pursuit but one of deep personal interest to the author: as a member of various political organizations and groups over the years, the nature of social democracy and its relationship to capitalism has been a constant focus of debate and discussion. The aim has been to write a book that contributes to debates among scholars but also one of interest to those concerned about the abyss the world seemingly is fast approaching.

I have to thank many people for helping the book to fruition. Firstly, I must thank the publishers, Ashgate, and its editorial staff, for agreeing to publish the book, and for conceding to my requests for deadline extensions and increases in word length. The initial reviewer of the book proposal provided some helpful criticisms and comments.

Many of the views I have developed about social democracy and politics in general have been influenced by my former membership of the Australian branch of the International Socialist Tendency (IST). I hope the IST's theoretical rigour and political toughness show through in the book. I was also a one-time member of the ALP, and I suspect my somewhat less positive experience in that organization may also be evident in the book.

In writing the book, I was fortunate to be able to draw on over forty personal interviews with members, officials, and parliamentarians in the four social democratic parties. While they are unlikely to agree with my conclusions, I thank them for taking the time out from busy schedules to provide some valuable thoughts on the questions I asked of them. It will be a bonus if the book provides them with any insights about the workings of their organizations.

The book would not have been possible without research funding, which was provided by various sources, including: Griffith University, and its constituent elements, the Griffith Business School and the Centre for Governance and Public Policy (CGPP). The latter chipped in when my research grant funds ran dry, and for that I thank Centre Director Pat Weller, who also encouraged me to think big about the proposal in the early stages. I also gained some valuable feedback at a CGPP seminar in 2007 at which I set out the book's main argument.

I was fortunate to be a member of the Department of Politics and Public Policy, and the Centre for Governance and Public Policy, both of which are very encouraging towards members' research endeavours. I thank colleagues for their support. I owe a

large debt of gratitude to Haig Patapan, in particular, for initially encouraging me to write the book, and then helping me with it at various stages along the way. Haig has been an excellent and very generous source of advice (including legal advice!) over the years, for which I am very thankful. I am also grateful to Julie Howe, Secretary of the Department of PPP, for helping me organize my travel overseas, and various other aspects related to the research.

Along the way, I met various people who helped with sources and research, as well as providing me with some good, old-fashioned company while researching overseas. I am very thankful to Sebastian Derle – whom I happened across extraordinarily on the streets of Stockholm – for providing me with friendship and research contacts. Two of these contacts, Jakob Brandt and Frederick Larsson, kindly spoke to me at length about their experiences in the SAP. Thanks are also due to Jonas Hinnfors for some informative discussions about social democracy. Henning Meyer was very helpful in providing me with an excellent source on the SPD, and he also showed me around London. I am grateful to Ross Ploetz for help with research on social democracy, and to Lachlan McKenzie for material on Hugo Chavez and Venezuela. Participants at the Rethinking Social Democracy Conference in Sheffield, June 2006, provided some helpful comments on a paper canvassing some of the arguments in this book. I am particularly grateful for the detailed remarks provided by Gerassimos Moschonas.

I am very grateful to my mother and father, without whom this would not have been possible (not just literally, but in many other ways!). Their support over the years has not always been acknowledged, but it has always been appreciated. I have to thank also my dogs, Millie and Lettie, for their companionship over the many long hours of writing.

Finally, I must thank my partner, Rachel, for her endless patience, enthusiasm, and support. She lived through the ups and downs of the project more than anyone, while at the same time dealing with the constraints and pressures of her own life. The book is dedicated to her.

# List of Abbreviations

| | |
|---|---|
| ACOSS | Australian Council of Social Services |
| AES | Australian Election Study |
| AGM | Alternative Globalization Movement |
| ALP | Australian Labor Party |
| AWA | Australian Workplace Agreement |
| BNP | British National Party |
| CBI | Confederation of British Industry |
| CDU | Christian Democratic Union [*Christlich Demokratische Union Deutschlands*] |
| CGT | Capital Gains Tax |
| CPA | Communist Party of Australia |
| CPI | Consumer Price Index |
| CSU | Christian Social Union [*Christlich-Soziale Union*] |
| DGB | German Confederation of Trade Unions [*Deutscher Gewerkschaftsbund*] |
| DVU | German People's Union [*Deutsche Volksunion*] |
| EMU | European Monetary Union |
| ETU | Electrical Trades Union |
| EU | European Union |
| FDP | Free Democratic Party [*Freie Demokratische Partei*] |
| HRH | House of Representatives Hansard (Australia) |
| IFS | Institute for Fiscal Studies |
| IMF | International Monetary Fund |
| IPPR | Institute of Public Policy Research |
| LO | Swedish Trade Union Confederation [*Landsorganisationen i Sverige*] |
| NEC | National Executive Committee (British Labour Party) |
| NHS | National Health Service (UK) |
| NPD | National Democratic Party of Germany [*Nationaldemokratische Partei Deutschlands*] |
| OECD | Organization for Economic Co-operation and Development |
| PFI | Public Finance Initiative |
| PHON | Pauline Hanson's One Nation |
| PPP | Public-Private Partnership |
| PR | Proportional Representation |
| SAP | Swedish Social Democratic Workers' Party [*Socialdemokratiska Arbetarpartiet*] |
| SEA | *Single European Act* 1986 |

| | |
|---|---|
| SH | Senate Hansard (Australia) |
| SPD | German Social Democratic Party [*Sozialdemokratische Partei Deutschlands*] |
| TUC | Trades Union Congress (UK) |
| UKIP | United Kingdom Independence Party |
| VAT | Value Added Tax |
| WASG | Electoral Alternative for Work and Social Justice [*Wahlalternative Arbeit und Soziale Gerechtigkeit*] |
| WHO | World Health Organization |
| WTO | World Trade Organization |

Chapter 1

# Introduction: The Social Democratic Malaise

In a world wracked by war, terrorism, the threat of environmental catastrophe, and staggering inequalities in wealth and power, the demand side for left politics has never been stronger. Yet, the supply side seemingly has never been weaker. Everywhere parties nominally of the social democratic left barely differ from their conservative and liberal opponents in their prescriptions for the world's problems. Plans to challenge entrenched power and privilege or redistribute wealth have disappeared. Is the neo-liberalization of social democracy just a passing phase, or is the project beyond repair?

In answering this question I aim to contribute to the debate about the future of the left. My approach shares with traditional social democracy an abhorrence of free market fundamentalism and a belief in the need for collective action to remedy social injustice. It argues, however, that modern social democratic parties are no longer capable of delivering social change, and that they are now impediments to the building of a better world. The book concludes, therefore, that any challenge to neo-liberalism will only come through embracing alternative left parties and social movements, such as the Alternative Globalization Movement (AGM).[1]

An argument positing the death of social democracy is not by itself new. Taylor (1993) notes that in the 1980s 'social democracy was portrayed as, if not in its grave, then verging on terminal decline'. At the end of the 20th century, David Marquand (1999, 247) wrote that '[r]umours of the end of social democracy have abounded for more than twenty years'. While Taylor and Marquand are not convinced that the condition is terminal, John Gray (1996) claims that globalization has killed social democracy. Meanwhile, Clive Hamilton (2006) has nominated mass affluence as the culprit in its death.

This book argues that social democracy is dead for very different reasons. From a Marxist perspective, it nominates as chief cause of the death the collapse of the post-war economic boom. A return to low growth in the 1970s removed the economic base of social democracy, which relied on the high revenues and incomes associated with the boom to fund social reforms. On top of the fiscal impact, the end of the boom rendered impossible the simultaneous pursuit of policies that reduced inequality and raised living standards *and* which did not undermine capital accumulation. In the new context of low accumulation and profits, economies now required neo-liberal

1 Borrowing from Harvey (2003, 162), this term is used throughout as a replacement for the so-called 'anti-globalization' movement, which is not so much against greater global interaction but rather the way in which it is presently constructed.

policies to open up business opportunities and remove the constraints on capital to enable it to flow into uncharted areas. Social democrats were effectively forced into embracing such a policy approach if they were to stay within the parameters set by capitalist democracies, but in the process they abandoned their historic aim of reforming capitalism.

This explanation matters for any future prognoses. The position taken in this book is a radical one precisely because it rules out a revival of social democracy. There can be no turning back because the economic base from which social democracy could provide an alternative to neo-liberalism cannot be restored. Many commentators see problems in the project, but do not believe it is beyond repair. Even the arguments of Gray about the impact of globalization allow for some possibility of rejuvenation. If, as numerous commentators have pointed out, government policies have made globalization possible, they could just as easily unmake it. Hamilton's argument that social democrats need to move from targeting economic deprivation to tackling the alienating effects of consumerism assumes that the parties are not so enmeshed with consumer capitalism for them to be able to do this.

Many other authors, meanwhile, see the problem as one of ideas: the rise of neo-liberal ideologies has undermined egalitarian politics. Presumably if such ideologies can be effectively countered, social democrats may embrace more progressive politics. This is illusory, however, because the triumph of neo-liberal ideologies largely reflected the structural changes in capitalist political economy that demanded policies to smooth the flow of capital into new areas of profit-making.

No doubt some will interpret this argument as economically determinist. In fact, it is suggested that, given social democracy's history of class collaboration and the pursuit of reforms within capitalist confines, social democrats have acted rationally by embracing neo-liberal policies in a period of economic decline. What will replace social democracy is also not pre-determined. The Far Right has benefited from social democracy's embrace of neo-liberal policies and the despair they engender. It could do so further in the future if the left does not put forward a viable alternative to neo-liberalism.

## Political Consequences

The death of social democracy has – and will continue to have – significant political consequences. While numerous authors have examined the neo-liberalizing trends in social democracy, few have dealt with the political consequences arising from this. The social democratic parties have suffered major setbacks from voters as a result of pursuing neo-liberal policies. This is an important point, given the frequency with which the electoral benefits of 'modernising' social democracy are touted.

An additional political consequence is that the parties have lost members. Membership decline is, of course, a problem for parties in general. Yet, there is evidence that social democratic parties have lost members specifically in response to the above policy developments. Without an agenda for social democratic reform, the benefits of membership are significantly reduced.

Another important political consequence has been increased support for minor parties who have capitalized on voters' contemplation of more radical alternatives in the context of a consensus on neo-liberalism in the established parties. The rise of Far Right parties and more radical left parties are normally treated as separate phenomena. If they are seen in any way as connected to trends in social democracy, analyses are restricted to individual countries, with little comparison between case studies. I attempt to rectify this weakness somewhat by examining four case studies (see below).

The book, therefore, links together seminal themes in global politics: the death of social democracy is driving key political trends, such as the lack of alternatives in mainstream politics, and the rise of more radical parties. These political consequences are important because they presage an increasingly volatile and polarized political climate in the 21st century that has the potential to lead to new and stronger political forces for social justice, or emboldened reactionary elements emerging from the sidelines of politics to occupy more central positions.

## Structure of the Book

I examine social democratic parties in four different countries: Australia, Britain, Germany and Sweden. These are important case studies which, when examined collectively, can allow us to make an argument about the future of social democracy. If there is no hope for social democracy in these countries, there is unlikely to be hope elsewhere. Too often, commentators see the countries in isolation. What is missed in the process is not only the fact that the problems each is facing are common to all, but also that sources of problems for individual cases are likely to be international and systemic. Scholars specializing in any of the surveyed countries will no doubt take issue with some aspects of my interpretation of social democracy in these countries. My emphasis is on the broad policy trends globally in social democracy, rather than detailed analysis of individual countries. There is, of course, variation between the countries, and it is argued that factors specific to the political-economic context of individual countries will have a bearing on the emergence of alternatives to social democracy.

The book is structured as follows. Part 1 of the book (Chapters 2–4) develops the arguments about the death of social democracy and its political consequences. Chapter 2 defines social democracy, looks at the compatibility of the different case studies, and examines the extent to which social democracy has embraced neo-liberalism. Chapter 3 looks at the various explanations for this development, before arguing that the collapse of the post-war boom ultimately provides the best explanation. Chapter 4 introduces the political consequences of the death of social democracy.

The ensuing parts of the book develop these arguments in relation to the case studies. Chapter 13 concludes the book by comparing and contrasting the experiences of the different countries and accounting for some of the differences in political consequences. In the wake of social democracy, it looks at the prospects for social change through radical left parties and social movements such as the AGM.

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# PART 1
# The Death of Social Democracy and its Political Consequences

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# Chapter 2

# Social Democracy and Neo-liberalism

This book examines the death of social democracy in Australia, Britain, Germany, and Sweden. Each of these cases is important. While the ALP has been compared with British Labour (e.g. Johnson and Tonkiss 2002), it has been neglected in comparative work on social democracy more broadly. It served as a model for some 'modernizing' social democrats, such as New Labour, partly because it commenced its neo-liberal programme relatively early (in the early 1980s) and was in power for a long period of time thereafter (1983–1996). The British case has been influential internationally under Tony Blair, and is also widely thought to have embraced neo-liberalism more thoroughly than others. The SPD's age, position, size and international connections make it the most influential social democratic party in Europe, and therefore in attempting 'to assess the future of social democracy no party is more important than the SPD' (Paterson 1986, 127). Some may accept the argument as it applies to Britain or Germany, but protest that Sweden still offers a social democratic alternative. But, as we shall see, Swedish social democracy also has been neo-liberalized, and has suffered analogous political consequences.

To what extent can we compare these parties? A distinction often made is between the 'labourist' parties of the UK and Australia and the 'social democratic' parties of Europe (Scott 2000, 11–14; Clift 2001, 56). Undoubtedly social democracy comes in various national and political forms and styles (see C. Pierson 2001, chapters 2 and 3). The differences between labour parties and social democratic parties have, however, been overstated. As Berger has argued, 'both the British Labour Party and the German SPD were party to a very similar form of socialism'. Both parties emerged as 'protest movements against a society which was understood to be unjust and immoral, they were both reluctant to work within that system. The majority within both parties finally overcame these doubts'. Marxism's influence on the SPD *vis-à-vis* British Labour also has been exaggerated (Berger 1994, 17, 254, 175, 177). Fielding argues that despite national variations, 'all social democrats sought to transform free market capitalism into a more regulated system they described as socialism'. Based mainly in the manual working class, they 'sought to improve their constituents' lot by contesting elections, winning office and using power to extend the state ownership and regulation of capitalism' (Fielding 2003, 60, 11). In this sense, social democrats are reformist because they see reforms within capitalism as ends in themselves.[1]

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1 All social democrats are reformist but, as Moschonas (2002, 16) points out, not all reformists are social democrats (e.g. Green parties). Social democrats, therefore, are distinguishable by other characteristics, such as their connection to organized labour (see

This compression of these parties into the 'social democratic' category is made possible also by the existence of the Socialist International, a grouping that contains 'socialist', 'social democratic' and 'labour' parties (Birchall 1986, 15). Furthermore, as we shall see in the following chapters, recent debates about constraints and challenges – including globalization and electoral pressures – reveal how these different parties in different countries have been impacted on in similar ways. Each of the parties is bedevilled by perceptions that they no longer offer a political agenda distinct from their rivals. The empirical record in the chapters also points to very clear similarities between the parties in terms of their embrace of neo-liberal policies.

The term 'social democracy', then, can encompass the different parties studied here. The definition preferred in this book is that provided by Birchall (1986, 15, 16), who refers to 'a group of parties which have a programmatic commitment to some form of socialism and some link (organizational, traditional or ideological) with the working class, but whose practice is predominantly parliamentary and reformist'. Needless to say, social democratic parties traditionally are parties of the left.[2] Also, the existence of a close relationship with trade unions is among 'the characteristic features of social democratic parties' (Taylor 1993; see also Moschonas 2002, 25). While some social democrats have much stronger ties with unions than others (Padgett and Paterson 1991, 3), Taylor's point is true of the countries studied here. The similarities between the parties are again reflected in the deterioration in party-union relations as a result of the turn to neo-liberal policies.

## Traditional Social Democratic Policies

As well as having these common characteristics, the different parties have pursued similar (though not identical) policies. In countries such as Australia and Britain there has been a commitment (programmatically at least) to socialization of the means of production; in others, such as Sweden, there has been more emphasis on extending the welfare state. Yet, there are many commonalities. Hay suggests three historical characteristics of social democracy. First, social democrats are committed to redistributing wealth in response to the inequalities created by markets. Second, social democrats believe in government economic intervention to deal with market failure. Third, social democrats are socially protectionist, in that they stand for the provision of better health care, education and welfare for their citizens (Hay 1999, 57). Seyd and Whiteley (2002, 185) suggest that social democracy has been characterized by a belief in democracy on the one hand and, on the other, 'curbing the excesses of capitalism and redistributing power and resources to the disadvantaged and the forgotten'. Social democrats have also believed in

below). Nonetheless, the term 'reformist' is used henceforth to refer to social democratic reformists.

2 The contemporary relevance of terms 'Left' and 'Right' has been questioned by some (e.g. Giddens 1994). But as the Italian political theorist Noberto Bobbio (1996, 29–31) has argued, the left has always been distinguished by a belief in equality. That social democrats tolerate inequality, and therefore perhaps are no longer left-wing, does not mean that the framework itself is invalid.

government intervention to 'civilize' capitalism.[3] With a largely German focus, Egle and Henkes (2005, 163, 164) include among traditional social democratic policies reforms such as progressive taxation aimed at redistributing wealth, generous welfare provision and legal protections for employees, and full employment. Social democrats from Australia mention similar policies, including spending on pensions, unemployment relief and public health and education, investment in infrastructure and publicly-owned enterprises, and policies aimed at reducing workers' exploitation (Kerr 2001, 4).

In terms of the implementation of such policies, the quarter century after WWII is regarded as a 'golden era'. According to Harvey (2005, 11), during this period 'market processes and entrepreneurial and corporate activities were surrounded by a web of social and political constraints and a regulatory environment that sometimes restrained but in other instances led the way in economic and industrial strategy'. Many social democrats were attracted to the ideas of the British economist John Maynard Keynes, who argued that it was of 'vital importance' for the state 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'. A 'somewhat comprehensive socialization 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 Keynesian policies contributed to the consistently high economic growth rates of that period (see Chapter 3), social democrats seized upon Keynesianism, whose status as orthodoxy allowed them to avoid having to choose between mainstream economics and government intervention to raise living standards, expand welfare, and reduce inequality (Scharpf 1991, 23; Padgett and Paterson 1991, 22, 23). According to Plant (2004, 112), Keynesianism became social democrats' answer to the Marxist critique of their strategy of seeking justice and equality by political means while ignoring the economic power of capitalists (see below).

As we shall see in the chapters that follow, it was the buoyant economic conditions that enabled social democrats some measure of success in the post-war period. Yet, social democrats have often failed to implement their traditional policies in government, and have instead ended up enacting policies beneficial to capital rather than their working class constituents. This (at best) chequered history runs through each of the case studies. As Callaghan (2002, 436) comments, one reason why the post-war period is referred to as a 'golden age' is that social democrats' pre-war record was 'sufficiently grim'. The most persuasive explanation for social democratic failure has come from the Marxist tradition.

## Social Democracy and Revolutionary Marxism

According to Tudor and Tudor (1988, ix), among the outstanding features of politics in the 20th century was 'the conflict between revolutionary Marxists and

3 Hence, the title to former ALP leader Mark Latham's (1998) book, *Civilising Global Capital: New Thinking for Australian Labor*, which itself was based on Bede Nairn's (1973) classic book, *Civilising Capitalism*.

non-revolutionary Social Democrats'. Unlike social democrats, Marxists have seen reforms not as ends in themselves but as a necessary step on the road to the ultimate goal of transcending capitalist social relations (see Lenin 1970, 75–78). Social democrats abhor class struggle. In contrast, witness Marx's (1973, 108) lauding of the 'struggle of class against class' as 'the prime mover of all social progress'.

The division between reformists and revolutionary Marxists was not always so clear. The current association of social democracy with gradual parliamentary reform, Moschonas suggests, is a post-war thing. Earlier social democrats could have been considered 'orthodox, revisionist, [or] revolutionary', the latter evidenced by Lenin's description of himself as a social democrat (Moschonas 2002, 19–21). While there is some truth to this, the ALP was from its inception reformist and parliamentarist (see Nairn 1973). The British Labour Party was formed by the trade unions with the aim of representing the grievances of working class people, not overthrowing the system of wage labour. Even the SPD, despite being comprised of revolutionary currents early on, had become thoroughly reformist by WWI (Waldman 1958, 27, 28). The question of reform or revolution was settled in the SAP not long after its foundation in 1889 (Sparks and Cockerill 1991, 93). This raises the question of continuity between social democracy, old and new (see below).

A key additional difference between revolutionaries and social democrats is that the former were influenced by a Marxist approach to the state.[4] While Marx did not thoroughly theorize the state (Miliband 1973, 7), he and Friedrich Engels (1975, 34, 35) had famously argued that the progressive accumulation of wealth by the capitalist class reduced government to the position of 'a committee for managing the common affairs of the whole bourgeoisie'. Marx (1975, 78) had elsewhere argued that: 'Legislation, whether political or civil, never does more than proclaim, express in words, the will of economic relations'. The way in which this structural power translates into political outcomes congenial to business investment has been recognized even by some theorists in the pluralist tradition (Lindblom 1977).[5] There is considerable empirical evidence of social democratic governments succumbing to capitalist and other establishment pressures. Perry Anderson observes that a British Labour government is 'a spot-lit enclave, surrounded on almost every side by hostile territory, unceasingly shelled by industry, press and orchestrated "public opinion". Each time it has been over-run' (cited in Cairns 1976, 7). Reflecting on his government's downfall in 1975, ALP MP Lionel Bowen claimed that 'the whole of the establishment, the hierarchy and the wealth of [the] country [were] anxious to destroy us' (cited in ALP 1979, 360). The Mitterand government's reform programme in France in the early 1980s infamously concluded with the French Socialist Party

4 There are numerous Marxist approaches to the state (see Poulantzas 1970; Miliband 1973; Jessop 1982; Harman 1991). The Marxist approach to the state adopted here is an orthodox one: the state embodies the interests of capital, and while capable at times of granting reforms to the working class – either through pressure placed upon it by direct action and/or because economic conditions permit them – its general purpose is to implement laws favourable to capital accumulation.

5 For a contrary argument, see Przeworski and Wallerstein (1988).

implementing 'austerity with a human face' as a result of capital flight and other economic pressures (Hobsbawm 1994, 411).

The source of social democrats' relative failure thus lies in their pursuit of social reforms within the strictures of capitalism. This was a point Marx (1974, 348) made in his *Critique of the Gotha Programme* when he attacked the SPD for striving to redistribute the 'means of consumption' while leaving undisturbed the distribution of the 'means of production'. One of social democracy's deepest flaws is the separation of politics from economics: decisions can be made in the sphere of parliament and law-making (politics) independently of the daily acts of business investment and production (economics), and political equality can happily prevail amid economic inequality (Callinicos 1997, 17; Miliband 1973, 237). This flaw is exposed all too starkly when social democrats gain power and attempt to enact reforms damaging to capital's interests:

> 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).

Similarly, Coates (cited in Birchall 1986, 22, 23) pointed to a catch-22 at the heart of social democratic politics: on the one hand, strong economic growth was necessary to finance social reforms beneficial to workers and the poor, but the generation of such growth was possible only by overseeing policies favourable to capital (and by assumption unfavourable to labour). Raymond Plant argues that New Labour's attempt to reconcile 'social justice' with a market economy and private ownership is 'just the most recent version' of a mistaken belief that social justice and equality can be achieved through the conquest of political power while leaving economic power in the hands of capital (Plant 2004, 106, 107). Social democratic governments are therefore expected to implement reforms in their constituents' favour but simultaneously compelled by economic pressures to introduce pro-capitalist policies that conflict with their constituents' interests. From this flow the inevitable charges of betrayal.

It is thus by no means a recent development for social democratic governments to implement policies that both favour business and disappoint the working class. What is novel is social democrats' abandonment of any ambitions to reform capitalism. Whereas the above analysis suggested that social democrats often harboured such desires for reform only to be frustrated by the realities of power, social democrats today have no intentions of reforming capitalism.

## Neo-Liberalism and Social Democrats

Potthoff and Miller (2006, 421, 424) argue that social democracy ought to be, *inter alia*, a 'corrective to neo-Liberalism' and an 'alternative to the conservative-liberal camp'. Social democracy is no longer either of these. It has embraced neo-liberalism and there is no longer any agenda for the transformation of capitalism that

distinguishes social democrats from conservatives and liberals. Its relationship with organized labour – once a distinguishing feature of social democracy – is strained to the point where unions are treated as just another interest group. While it is not possible to pinpoint a date for the death of social democracy, it is argued that the turning point was the collapse of the post-war boom, which robbed social democracy of the economic foundation on which it could act as a 'corrective to neo-Liberalism'. In order to demonstrate this point, it is important first to define neo-liberalism. According to Harvey (2005, 2):

> 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 appropriate to such practices.

Neo-liberalism is fundamentally at odds with social democracy, which as we have seen traditionally has stressed the need for government to protect workers and the disadvantaged, redistribute wealth, and 'civilize' capitalism. Rather than seeing capitalism as something that needs to be reformed, as social democrats traditionally have, neo-liberals strive to liberate capitalism: tax breaks and other incentives to invest, privatization, deregulation of finance, freer trade and the removal of planning controls help to open up new areas for capital accumulation. On top of this, the neo-liberal state 'withdraws from welfare provision and diminishes its role as far as possible in the arenas of health care, public education and social services that had been so central to the operations of the social democratic state' (Harvey 2006, 25, 26). Neo-liberalism is almost synonymous with the 'Washington Consensus', a term coined by economist John Williamson, and which comprises ten policy areas: fiscal discipline, re-ordered public expenditure priorities, tax reform, interest rate liberalization, competitive exchange rates, free trade, foreign direct investment liberalization, privatization, deregulation, and property rights (Williamson 2002). This broader conception is preferable to those who interpret neo-liberalism as primarily about reducing the size of the state through reduced levels of taxation and government spending.

The term 'neo-liberalism' implies some variant on liberalism (Dumenil and Levy 2004, 15). Treanor argues that, while widely used as a term, it is 'more a phenomenon of the rich western market democracies' given their historical legacy of liberalism. Whereas liberalism aspired to a market economy, neo-liberalism seeks to subordinate every aspect of society to the market (Treanor 2005). There is no doubt that neo-liberalism has contributed to the further marketization of many areas of life. It is not clear, however, that this is something peculiar to neo-liberalism. Capitalism has always been driven by a permanent search for new markets and sources of profit. Marx wrote in the late-1840s of the emergence of capitalism as the time 'when the very things which till then had been communicated, but never exchanged; given, but never sold; acquired, but never bought … when everything finally passed into commerce' (Marx 1975, 34).

What is clear is that neo-liberalism is strongly pro-business, and this may not necessarily mean 'pro-market' (Pollin 2003, 8). As Ashman (2003) puts it, neo-liberalism is not opposed to state involvement in the economy, but is instead about '"freedom" for capital from state "interferences"'. Neo-liberalism deploys a strong state to protect private property and open up new areas for capitalist exploitation (Harvey 2005, 21). The dominance of neo-liberal ideas is partly a reflection of the structural power of capital as well as low rates of profit and accumulation that drove states to open up many new areas for business investment (see next chapter). The neo-liberal state, Harvey (2005, 7) argues, pursues policies that 'reflect the interests of private property owners, businesses, multinational corporations, and financial capital'. Treanor (2005) correctly writes that a neo-liberal government 'will pursue policies designed to make the nation more attractive as an investment location'. Neo-liberalism's overarching aim is 'to create a 'good business climate' and therefore to optimise conditions for capital accumulation no matter what the consequences for employment or social well-being'. This contrasted with social democracy's commitment 'to full employment and the optimization of the well-being of all of its citizens subject to the condition of maintaining adequate and stable rates of capital accumulation' (Harvey 2006, 25).

There is, of course, not one model of neo-liberalism. Ryner invokes the notion of left and right 'poles' of neo-liberalism (Ryner 2004, 98, 102). Watkins refers to the 'high road' of class warfare, pursued by the likes of Thatcher and Reagan, and the more common 'low road' likely to be pursued by social democrats, involving the imposition of neo-liberal policies by 'stealth' (Watkins 2004, 26). It is therefore possible for two quite different regimes to both be neo-liberal. For instance, Thatcher's regime was arguably neo-conservative (Ignazi 2003, 25). Yet, it pursued neo-liberal policies that New Labour – a different regime constrained by a working class constituency in a way Thatcher's was not – continued in important respects (see Chapter 7).

Just as there is not one version of neo-liberalism, social democrats have not embraced it in an identical manner. Ryner argues that, while not adopting Thatcherism, through its reforms to the welfare state, its more distant relationship with trade unions and support for European integration, the SAP has occupied the 'left pole' of neo-liberalism (Ryner 2004, 98, 102). The SPD's policies in office between 1998–2005 arguably put it more to the right in comparison.[6] Driver and Martell argue that New Labour's neo-liberal policy moves were faster and more ideologically driven than in France, Sweden and Germany, which can be explained partly by British 'traditions of individualism and limited government' (Driver and Martell 1998, 172, 173). Privatization figured more prominently in the neo-liberal record of the ALP in the 1980s and 90s than it has in recent SAP and SPD governments, where there has been more emphasis on welfare retrenchment (see case studies).

Whatever differences there have been in the styles or speed with which neo-liberalism has been adopted, the international trend is clear. Former SPD Finance Minister Oskar Lafontaine (2000, 25) maintains that in Europe 'we are now all

6 Then-SPD MP Ernst von Weizsäcker (2005a) put Schröder to the right of even Swedish conservatives.

neoliberals and supply-side politicians'. Harvey (2005, 2, 3) writes that in the 1970s there was an 'emphatic turn towards neoliberalism', with countries ranging from post-Soviet states to 'old-style social democracies and welfare states such as New Zealand and Sweden' embracing 'some version of neoliberal theory' and moderating 'some policies and practices accordingly'. The American version of free market capitalism has been dominant (Stiglitz 2003, 4). There has been an indisputable trend towards neo-liberalism in the case studies conducted in this book. While not always hostile to markets (Vincent 1992, 109), it is clear that social democrats believed in government action to insulate the most vulnerable from the vagaries of *laissez-faire*, and their policies – in the post-war period at least – reflected this. Contemporary social democracy does not believe in intervening in the market beyond the existence of basic social programmes that few parties oppose.

There is, of course, continuity between traditional and modern social democracy in the sense of its restriction to what capitalist political and economic structures will sanction (see Chapter 2). After all social democrats were, and still are, 'bourgeois politicians' (Miliband 1973, 64). What is different now is that social democrats employ a neo-liberal policy approach that contradicts their historic aim of reforming capitalism, giving rise to the phenomenon of 'reformism without reforms'. The parties will continue to fund the welfare state and will point to individual policies (for instance, the minimum wage in Britain, introduced by New Labour) as proof of their social democratic credentials. Yet, when implemented within a broader neo-liberal programme that offsets most of their benefits, such policies cannot be considered as proof of social democracy. Moreover, they pale into insignificance compared to the reforms implemented by social democrats during the post-war boom.

Some will argue that social democrats operate in different contexts and under different pressures, and therefore social democracy does not look the same as it once did. The problem with this argument is that it could be used to claim that even Thatcherism is social democratic so long it is implemented by parties bearing the social democratic label. Here it is worth recalling Marx's point that 'in historical struggles' it is important to 'distinguish the phrases and fancies of the parties from their real organism and their real interests, their conception of themselves from their reality' (cited in Molyneux 1983, 3).

When we refer to the death of social democracy, then, we are referring not to the death of social democratic parties as organizations. It is rather the social democratic content of these parties that is dead. While modern social democratic parties remain transfixed on gaining parliamentary power, there is no longer any legislative desire to reduce inequality and restrain capitalism. Lafontaine (2000, 205) argues that the contemporary task of social democrats is 'to bring under control a capitalist system that is running wild'. It is clear that nowhere do social democratic parties see their role in this way. Moschonas argues that any social democracy worthy of the name would favour the re-regulation of capital flows in order to reduce global inequality. He also argues that social democrats ought to prioritize employment, oppose the redistribution of wealth to the rich, defend the welfare state, and invent 'novel, complementary social institutions to combat the new zones of poverty and inequality' (Moschonas 2002, 264, 316). Any attempt to 'civilize' capitalism today would surely involve policies such as limits and regulations on capital movements

(including speculative capital through means such as the Tobin tax),[7] strengthening the rights of unions and workers, increasing the tax burden on corporations and the wealthy, and extending regulations governing the environmental conduct of business. But regulating globalization runs counter to the thinking and practice of most social democrats, who have enthusiastically embraced the globalization agenda, despite believing that it undermines social democratic policies (see case studies).

Of course, one can argue about what difference some of the above measures would make while capitalist social relations remain in place, or about the likelihood of passing such laws in the teeth of capitalist resistance. If the issue were about how these policies could best be achieved – by 'reform' or by 'revolution' – this would be consistent with traditional debates between social democrats and those on its left. But social democracy no longer believes in 'reform'. As recent as the early 1980s (e.g. Mitterand's in France), social democratic governments came to power with intentions to reform only to be rebuffed by economic pressures. Yet the Swedish, British and German social democrats that took power in the 1990s showed no intentions of social democratic reform (see case studies).

While the absence of any social democratic policy agenda is the most important measure of the death of social democracy, the changed relationship with organized labour provides further evidence of this. Most parties still retain a distinctive formal link, and social democratic politicians will frequently meet with and address gatherings of trade unionists. Moreover, unionists still provide a key source of finance and candidates, as well as 'foot soldiers' during campaigns. Yet, the relationship no longer has any political content, for it does not lead to policies implemented in the interests of labour. Most of the European social democratic parties have disassociated themselves from unions (Moschonas 2002, 253). The neo-liberal policies implemented by social democrats in some countries have led to the 'break-up of the socialist family' or talk of divorce and disaffiliation (McIlroy 1998, 538). Unions are often seen as just another interest group jockeying for influence over government. The input of business, on the other hand, is celebrated and welcomed. While it is doubtful that there will be a complete divorce with unions, there is no doubt that the trend is increasingly in the direction of de-unionizing or de-labourizing the parties, and further ruptures are likely in the future, with the potential for union figures to seek alternative political allies (as is the case to some extent in Germany, and to a much lesser extent, Australia). There is evidence of tensions between social democrats and unions in earlier periods of social democracy (see Potthoff and Miller 2006, 245, 263). But as we shall see in the case of the ALP, which was from 1996 in Opposition for almost twelve years, this is not just a cyclical thing wholly attributable to social democrats being in government, but rather a permanent feature of neo-liberalising social democracy.

Rather than this emanating from the electoral interests of social democrats in distancing themselves from apparently unpopular unions, as Moschonas (2002, 253)

7 The Tobin tax (named after Nobel laureate James Tobin) involved imposing a tiny tax on speculative investment as a way of raising funds for Third World development. If implemented, the Tobin tax could make a substantial difference (see Callinicos 2003, 77–79) but social democrats have shown little interest in pushing the idea.

argues, the changed relationship is in fact a product of social democrats' shift to a pro-business policy approach, which in turn was based on the need to revive rates of accumulation when the long boom came to a halt. While the timing and details differ in each case, there are nonetheless many similarities. The unions were effectively a speed-bump on the road to a pro-business neo-liberal stance. Traditionally there is tension between traditional social democratic policies and the needs of business, whose interests have often conflicted with the redistributive policies of social democracy. This tension was reduced considerably during the post-war boom when strong capital accumulation went hand-in-hand with social democratic reforms (see below). Social democrats' abandonment of such policies since has antagonized workers and unions, which stand to lose from the regressive and iniquitous effects of neo-liberal policies. Witness the way in which the SPD's *Agenda 2010* labour market and welfare policies inflamed relations with German unions (see case study). There have, no doubt, been rifts between the wings before, but today it occurs in a context where there is almost no prospect of a restoration of the economic base that would underpin a return to the social democratic policies that might heal the rifts (see next chapter).

**Hugo Chavez and Venezuela: Signs of Life for Social Democracy?**

It could be argued that the cases I have chosen fit the argument that social democracy is dead but that the example of Venezuela and President Hugo Chavez does not. Chavez has been a strong opponent of neo-liberalism in recent years and has nationalized sections of industry, and introduced programmes to reduce poverty and improve levels of education and provide better health services to the poor (Gott 2005, 256). According to some analyses, these programmes have significantly cut poverty rates (Weisbrot, Sandoval and Rosknick 2006, 3), though others argue that the reforms have been much more limited in reach (Denis 2006). Chavez is aligned with the AGM (Gott 2005, 273), while others count him as part of a Latin American 'social-democratic alternative to neo-liberal capitalism [that] is rising from below and infecting politics everywhere' (Ali 2006, ix).

One problem with the latter claim is that 'social democratic alternative' is not defined. It is debatable whether Chavez is a social democrat.[8] But a more important reason why the experience of Chavez and Venezuela does not hold out hope for social democracy is that his policies rely on circumstances virtually unique to Venezuela. The success of Chavez hitherto in reducing poverty rates and implementing social programmes has been based on the strong rates of economic growth witnessed in recent years, and the high world oil prices. Economic growth increased by an extraordinary 17.9 percent in 2004, and by 9.3 percent in 2005 (Weisbrot, Sandoval and Rosknick 2006, 3). On top of experiencing soaring growth rates, Venezuela is the holder of the largest oil reserves of any country outside the Middle East, and possesses the fifth largest reserves in the world (Lupi and Vivas 2005, 83). Ali

8 Chavez has attracted support from people in the social democratic tradition as well as the revolutionary left (Lupi and Vivas 2005, 84, 93). Furthermore, 'Chavismo' has been labelled 'populist' by numerous observers (Hawkins 2003; Ellner 2003).

(2006, 41) concedes that the reforms are 'fuelled by oil revenues'. Former Brazilian president Fernando Cardoso argues that:

> The government of Hugo Chavez has plenty of money because of oil. So he has the possibility to be populist without fiscal worries …
>
> Bolivia, I'm afraid, doesn't have enough money to be populist. Evo Morales doesn't have oil and he doesn't want inflation. So, what can he do? (Cardoso 2006, 63).

As Starr (2007, 8) comments, 'governments can only apportion handouts when the cash box is full. When oil prices fall, government revenue plummets, and the state is forced to curtail the spoils'.

As is shown in the next chapter, reformist governments' success is invariably based on strong economic conditions, which make it easier to simultaneously satisfy the desires of working class constituents for reforms and meet the accumulation needs of business. Thus far, Chavez has managed to do this: his reforms are accompanied by close relationships with sections of capital (Denis 2006), and the 'government has not engaged in mass expropriations of private fortunes' (Parenti 2005). Should conditions change, the scope for social change will narrow considerably (a point to which we shall return in Chapter 13). Aside from the impact of Latin American political culture and tradition, and the pressure of a mass movement from below, these conditions of high growth and massive oil revenues make it difficult to see the Chavez model being applied elsewhere.[9] This might explain why there has been no flow-on from Chavez to social democratic parties in other countries, which remain as wedded to neo-liberalism as ever.

9 It is true that the economies of both Australia and Britain have been growing at relatively high rates in recent years, but the rates seen in these countries are not remotely comparable to those enjoyed in Venezuela, and the economic strength experienced in those countries falls short of that experienced during the post-war boom (see Chapters 5 and 7).

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Chapter 3

# Explaining the Death of Social Democracy

It was argued earlier that, from a Marxist perspective, social democracy has always been flawed because of its separation of politics from economics. It is suggested below that, while crucial to any understanding of the failure of social democracy to deliver social reforms, such a Marxist analysis alone cannot explain the clear change in political direction since the 1970s. In order to explain social democracy's abandonment of reformism and embrace of neo-liberalism, we need to consult specific political-economic and ideological factors.

Common explanations include the dominance of neo-liberal ideologies, the impact of globalization and Europeanization, and electoral factors. This chapter argues that these are at best proximate rather than ultimate explanations. Only the collapse of the post-war boom provides an ultimate explanation: it created the climate in which neo-liberal ideas came to the fore; it provided the impetus for policies that helped create globalization, such as freer trade and capital market deregulation; and European integration in a neo-liberal direction simply reflects a broader trend requiring explanation. Meanwhile, the electoral factors explanation ignores social democrats' persistence with neo-liberal policies whose unpopularity is beyond doubt. While numerous authors mention the initial impact of the end of the boom, they do not draw the appropriate conclusions from this about why social democrats have adopted neo-liberal policies, or what future there is for social democracy.

The impact of declining economic growth is central to the broader argument about the death of social democracy. The argument that capitalism since the end of the post-war boom has been in a structural crisis from which it cannot escape leads directly to the conclusion that social democracy – which relies on a strong economic base – is beyond resurrection. The argument is likely to be resisted for its apparent economic determinism. But social democrats were not pressured into doing something they did not want to. In fact, given their history of class collaboration and pursuit of reforms within the parameters set by the capitalist economy, social democratic parties were, by embracing neo-liberal policies, acting rationally.

## The Role of Neo-liberal Ideas

Many commentators in attempting to understand the widespread application of neo-liberal policies have stressed the dominance of free-market ideologies. For instance, the late-Pierre Bourdieu spoke of politicians '[l]ocked in the narrow, short-term

economism of the IMF [International Monetary Fund] worldview', and of the 'work of "new intellectuals", which has created a climate favourable to the withdrawal of the state and so submission to the values of the economy' (Bourdieu 1998, 5, 6). Fellow French academic Susan George (1997) views neo-liberalism's hegemony as 'the result of fifty years of intellectual work, now widely reflected in the media, politics, and the programs of international organizations'. Hay and Watson (2003, 166) emphasize the 'self-imposed' nature of neo-liberal ideology and the way in which it prevents the emergence of alternative economic policies (see also MacEwan 1999; Piven 1991; Hutton 1999).

There is clear evidence that social democrats accept some neo-liberal ideas about the role of the state in the economy (see Blair and Schröder 1999). Yet, the question is begged as to why neo-liberal ideas came to have influence when they did. In the advanced capitalist countries neo-liberalism rose to prominence after Keynesianism was discredited by the mid-1970s recession (see below). Indeed, neo-liberal policies were conceived as a solution to the structural crisis that emerged in the 1970s – namely the lack of profitable investment opportunities – rather than simply constituting a grand alternative theory about how capitalism should operate. As Harvey (2005, 19) argues, 'it was only after the general crisis of overaccumulation became so apparent in the 1970s that the [neo-liberal] movement was taken seriously as an alternative to Keynesian and other more state-centred frameworks for policy-making'. Hobsbawm (1994, 271) recalls that 'between the 1940s and the 1970s nobody listened to such Old Believers' as Milton Friedman and Friedrich von Hayek.

Of course, the consolidation of neo-liberalism was also aided by the efforts of think-tanks, the awarding of Nobel prizes in economics to von Hayek and Friedman in 1974 and 1976 respectively, and the election of Margaret Thatcher in 1979 and Ronald Reagan in 1980 (Harvey 2006, 15). Even in the case of Thatcher, however, something deeper was at work, because arguably she continued the move away from Keynesianism commenced by the preceding Wilson and Callaghan Labour governments (see Chapter 7). Furthermore, as we shall see, the ideological explanation cannot explain the abrupt and reactive shifts in policy by governments in the 1970s in response to changes in conditions.

A similar process of ideological changes following developments in the economic and political spheres is apparent with the impact of the fall of the Berlin Wall and the dissolution of the Soviet Union. Francis Fukuyama's (1989) thesis about the triumph of political and economic liberalism was widely influential and gained acceptance even among elements of the Left (e.g. Blackburn 1991, 5, 28–39). One problem with the obituaries of 'socialism' was the assumption that what was dying really embodied socialism (see Callinicos 1991). Capitalism has come in many varieties, and the Soviet Union's was a form of 'state' capitalism in which the relationship between the state and worker was akin to that between the private business owner and worker in the West (Cliff 1988). This perspective was vindicated when the collapse of the Soviet Union and the so-called 'transition from socialism to capitalism' occurred with little of the upheaval normally associated with a change in social relations (Cliff 1999, 4). An 'overaccumulation' crisis comparable to that which occurred in the West in the mid-1970s was apparent in the Soviet Union in the 1960s and 70s (Harman 1983, 291–296). The role this played in the collapse of the USSR is often understated.

The point is that the rising influence of pro-market ideas is a direct consequence of crises in the post-war models, whether of the Keynesian or state-capitalist variety. The ideological impact flowed from the fact that to many on the Left – even those social democrats avowedly anti-Communist – the Soviet Union represented an economic alternative to the free market model of the West. Social democrats' historic adherence to models of 'socialism from above' – where socialism is delivered on high from parliament down to the masses, rather than from 'below' through the actions of the masses themselves (Draper 1966) – also meant that they would inevitably feel the impact when 'socialism from above' collapsed. The cumulative impact was that social democrats found it difficult to pose an alternative to the ascendant neo-liberalism. Evidence from the country case studies, including statements from social democrats themselves, lends support to this argument.

## The Impact of Globalization

Many writers suggest that traditional social democratic policies have been undermined by the policy-limiting consequences of globalization (Kitschelt 1994, 7; Piven 1991, 9; Gamble and Wright 1999, 2; Esping-Andersen 1996, 256).[1] Gray argues that globalization has killed social democracy because it renders unviable its traditional 'distributional goals' and the 'Left project of egalitarian community' (Gray 1997, 28, 29).

> Though practising politicians inevitably find it hard to acknowledge it, the 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.
>
> … The power of the international currency and bond markets is now sufficient to interdict any such expansionist policies (Gray 1996, 12, 13).

Social democracy is based on the assumption that states can manage economies, and if the power of the state is undermined then so is social democracy (Wolfe 1978, 108, 109). Thompson argues that some commentators viewed globalization as pressuring governments to pursue policies attractive to foreign capital in the hope of averting capital flight. Lower taxes, privatization, deregulation, policies to improve the flexibility of labour, and macro-economic stability, were the order of the day (Thompson 2006, 251). While it has been argued that social democrats in a country such as Germany were more likely to be affected because of its distinctive 'German model' (cited in Turner and Green 2007, 9), the rhetoric of German and British social democrats is almost identical in terms of how it depicts globalization as undermining social democracy or state power more broadly (see case studies).

Prominent critics of the globalization explanation include Paul Hirst, who marshals empirical evidence revealing a less globally integrated regime than is often assumed. This evidence is used to deny that capital is footloose or that governments

1 We are largely concerned here with economic globalization, including increased levels of world trade and foreign investment, and greater capital mobility.

cannot implement independent macro-economic policies (Hirst 1999, 84–86). Thompson argues that globalization poses real constraints. He also points, however, to the numerous critiques of the globalization argument, including evidence showing that production and investment are still largely domestically oriented, and that the argument about downward pressure being placed on wage rates ignored the fact that labour costs accounted for only about 20 percent of final manufacturing product in developed countries (Thompson 2006, 253–255).

The well-known capitulation of the Mitterand government in the early 1980s (see Chapter 2) also does not necessarily prove the globalization thesis. For, it can be argued that this was just a recent instance of a long line of social democratic governments succumbing to capitalist pressures that goes back at least to the 1930s (Callinicos 2001, 27). It also needs to be remembered that the hostile reaction of the French capitalist class was shaped by the newly depressed economic environment of the early 1980s, when annual economic growth in France averaged 2 percent compared to 6 percent in the years 1950–1973 (Ross 1991, 71–73). Mitterand also took power in the midst of an international recession (Callaghan 2000, 105).

There are clearly serious weaknesses in the globalization argument. The capital flight argument not only ignores how far back instances of it can be traced; also neglected is what happens when risks of capital flight are reduced. Martell recalls a discussion in British Labour circles in the 1980s that centred around the possibilities for social democrats if they were able to nullify the capital flight option by gaining control of several European states at once. He notes, however, that social democrats were in power in a majority of EU countries at the beginning of the 21st century, but this had not translated 'into the sort of progress for social democratic ambitions that were hoped for in those 1980s discussions' (Martell 2001a, l).

The suggestion that globalization was the main driver of the shift to neo-liberal policies also overlooks the way in which policies of deregulation, freer trade, and liberal foreign investment regimes – themselves driven by the needs of capital – facilitated greater cross-border activities (Weeks 2001, 281). Technically this means that governments could wind back globalization. One reason why they are unlikely to do so is that the policies cited above were in part engineered to address a central (and ongoing) problem for capitalism, namely the need to find ever more sources for markets and profits in the wake of the lower rates of economic growth and accumulation. The crucial point is that globalization did not impel governments to implement neo-liberal policies; rather it was the economic crisis, for which neo-liberal policies were seen as a potential solution, that was the catalyst. As with ideological trends, globalization cannot account for the abruptness of many social democrats' retreat from interventionist and reformist policies in the 1970s (see case studies).

The validity of these points notwithstanding, what is often neglected is the attitudes of social democrats themselves, who do argue that globalization undermines traditional social democracy (see case studies). If nothing else, such attitudes suggest that social democracy will not intervene in the economy, which is further evidence of the death of social democracy. Hay and Rosamond (2002, 148) argue that the 'discursive' element of globalization, or the way in which it has been constructed, has been underplayed in debates. As Martell comments, many see globalization

as merely a 'tool used by politicians to justify electorally or ideologically driven preferences, rather than as a real constraint' (2001b, 214). If it is true that the globalization argument is merely a neat political device, it suggests that there are other reasons for the implementation of neo-liberal policies for which it provides politicians with political cover. Perhaps a more unpalatable message to deliver to electorates is that the international capitalist economy has been undermined by structural internal contradictions from which it cannot recover – an explanation for the death of social democracy I pursue below – in the process opening the door for alternative economic systems to be debated. Whether or not this is true, because of the weaknesses we have highlighted in the globalization argument, it does not provide a persuasive explanation. The task is to explain the shift to neo-liberal policies, which in turn helped create globalization.

## European Integration

It has been argued that EU integration poses a far greater challenge to the autonomy of nations than does globalization because of the clearer transfer of political and economic power (Verlin Laatikainen 2000, 157). Martell describes the EU as 'primarily a set of institutions with liberal economic goals', and as a bloc that was conceived as a counterforce to other regional blocs, rather than as a vehicle for global solidarity and the eradication of poverty and injustice (Martell 2001a, 1; 2001b, 223). Similarly, Thompson (2001, 285) contends that the EU was 'constructed to accommodate and celebrate multinational capitalism'. Policy trends at the EU level have, however, been going in a clear neo-liberal direction in recent years (Gray 1996, 25). As Moschonas (2002, 168) argues, the convergence criteria 'strongly encouraged several left-wing parties in government to inflect their policy in a neoliberal direction during the second half of the 1990s'. With the Single European Act (SEA) of 1986, considerable limitations were placed on fiscal policy, and control over monetary policy was handed to the European Central Bank (Allen 2007). The distinctiveness of countries' social and economic policies may actually be threatened as a result, *inter alia*, of competition with other EU countries with more attractive investment regimes (Moses, Geyer and Ingebritsen 2000, 4). Swank (2000, 127, 128) notes that cumulative EU policies and the introduction of the convergence criteria in the early 1990s 'all potentially threaten the ability of social democratic welfare states to maintain generous and egalitarian programme structures'.[2]

Whether or not the European project was antithetical to social democracy from the beginning, it is clear that the project has exerted neo-liberal pressures on member states in recent years. Yet, even if this is the case, it is arguable that this neo-liberal

2 The four European Monetary Union (EMU) convergence criteria consisted of: keeping average inflation rates to less than 1.5 percent higher than the three member states with the lowest levels; a budget deficit lower than 3 percent of GDP, and a public debt ratio of no more than 60 percent of GDP; participation in the 2.25 percent narrow bands of the Exchange Rate Mechanism (ERM) for two years without considerable tension or devaluation; and an interest rate over the previous year no more than 2 percent higher than the three member states with the lowest levels (Blair 2005, 70).

direction of European policy in part reflects the preferences of member states, such as Germany, Sweden and Great Britain (see case studies). Perhaps an even stronger reason to question the value of this explanation lies in the fact that non-European social democratic parties such as the ALP have evinced the same neo-liberalizing trends. In large part, the neo-liberalization of Europe is better seen as an expression of the broader shift in preference for neo-liberal policies, which itself requires explanation.

## Electoral Factors

Electoral factors also rate a significant mention in the literature. A combination of declining traditional social democratic constituencies and widespread affluence apparently renders more difficult social democrats' task of winning votes on the basis of traditional policies (Stewart 2002, 72; Taylor 1993; Shipman 1999, 431, 432; Kitschelt 1994, 6; Pennings 1999; Green-Pedersen et al. 2001, 309). But if social democratic constituencies are in decline it would not be surprising were social democrats to appeal to broader groups by dispensing with their traditional policies. A related argument is that of Hamilton (2006) and others suggesting that mass 'affluence' reduces the economic-based appeal of social democracy.

Yet, electoral 'dilemmas' based on the fact that workers do not make up an electoral majority have not arisen recently (Przeworski 1985, 23–29). It is therefore difficult to see how this could explain the turn to neo-liberalism in recent times. Furthermore, the decline of the industrial working class is often overstated. During the post-war boom it remained stable as a percentage of the global population (Hobsbawm 1994, 302). Today, people categorized as 'service workers' are in many cases manufacturing or industrial workers who simply work for companies that provide outsourced services (Harman 2002, 8–15). A more serious problem with the argument is that the working class becomes synonymous with blue-collar workers, and is therefore assumed to be in decline. Classical Marxism, in contrast, defines class by a person's relationship to the means of production, meaning that a worker in a 'teaching factory' is just as much a member of the working class as a worker in a 'sausage factory' (Marx 1976, 644). Changes in technology and production will produce changes in the form of the working class but the production process stays the same. If one adopts this approach to the working class, then it has never been larger than it is today (Harman 2002, 6, 7). Thus in an advanced democracy such as Britain, the working class constitutes a majority of the electorate, and any strategy that focuses on middle-class interests 'might end up losing more support than it gains' (Seyd and Whiteley 2002, 181).

It might be argued that even if the working class as a whole has increased the important trend has been the decline in social democrats' manual working class constituency, the body of people to whom traditional social democratic policies have been geared. While this is undoubtedly the case, the fact that the working class remains the largest class means that social democrats have a very large *potential* audience. The related 'affluence' thesis ignores the fact that in advanced capitalist countries there is more than enough poverty and inequality on which to base an

attractive redistributive programme (see case studies). The fact is that, for whatever reason, social democrats have not effectively reached out to this audience. The 'affluence thesis' also betrays a flawed methodology. To conclude on the basis of a current boom – as Hamilton (2006) does – that redistributive policies are no longer necessary would be a grave mistake, for today's boom is likely to be followed by tomorrow's slump. As Hobsbawm (1994, 406) pointed out, when the post-war boom ended in 1973 the terms 'poverty, mass unemployment, squalor, instability' re-entered the political lexicon.

This argument about the working class constituency leads ineluctably to the idea that social democrats must appeal beyond it in order to win elections. This in turn often relies on analyses of voting behaviour in the influential work of American economist Anthony Downs. Downs argued that political parties were vote-maximizing and were encouraged to appeal to the centre since that is where the bulk of the electorate were found (Downs 1957). The Downsian thesis can be faulted on a number of grounds (see Hay 1999, chapter 3). In particular, the argument that parties are inherently vote-maximizing cannot explain why social democrats have often persisted with – and defended – neo-liberal policies when their unpopularity seems beyond doubt (see especially Chapter 9 below). The willingness to persevere with these policies suggests that the parties were acting on pressures other than electoral ones.

Also related to the declining constituency argument is the notion of electoral dealignment, which suggests that voters are less and less attached to parties. It follows that parties cannot target their policies just at their traditional constituents, who may in fact vote for another party. This also is unconvincing as an explanation. While voters undoubtedly in virtually all industrialized democracies are less loyal (Dalton and Wattenberg 2000, 3), as Hay argues in relation to New Labour, the parties themselves have contributed to this by making frequent 'cross-class' appeals (1999, 36). As Przeworski and Sprague (cited in Moschonas 2002, 226) put it: 'As Socialists become parties like other parties, workers turn into voters like other voters'. Dealignment could also be explained by ideological convergence, as partisanship serves less purpose 'when the perceived differences between the parties are not so great' (Webb 2002, 8). Dealignment could thus be linked to social democrats' acceptance of neo-liberalism, which has narrowed party distinctions (see Chapter 4). Moreover, the retreat from social democratic policies and the commencement of the shift to neo-liberal ones often occurred quite suddenly when in government – something which makes it difficult to attribute to electoral calculations devised to win power.

In presenting the explanations as I have done, it might be countered that this does not encapsulate the full spectrum of at least the critical literature on modern social democracy. There is, however, a common weakness in the literature, in the form of its tendency to ignore the destruction of the economic base of social democracy. As a result, the possibility of a rejuvenation of social democracy is not ruled out. Moschonas (2002, 310, 327), in his otherwise excellent book, accepts the argument that social democrats have embraced neo-liberalism but nonetheless hopes that electoral pressures may yet push social democratic parties into developing progressive policies. The work of Pierson also has been insightful in recognizing some of the structural pressures on social democracy, but he concludes lamely that there is no choice but to try to push the parties in a social democratic direction (Pierson 2001,

148–150). These contributions ignore, as we shall see, the fundamental economic structural change in capitalism that prevents a return to more progressive policies by social democracy. Moreover, electoral discontent with neo-liberalism has not thus far inspired any change in social democratic policies.

Many commentators reject the crude globalization explanation, only to deduce from this that alternatives to neo-liberalism within the narrow confines of present-day capitalist democracy are realizable (e.g. Garrett 1998). Coates (2001) has convincingly critiqued the work of Hay and others for essentially attributing the conservativism of New Labour to mistakenly held ideas about globalization and economic policy. He points out that all Labour governments have disappointed hopes of change. In doing so he adopts a position much closer to the one outlined in this book in terms of the unlikelihood of social democracy moving back to the left. He does, however, then concede ground to some of the globalization arguments, the flaws of which were alluded to above, and he pays little attention to the destruction of the economic base (see below). It is to this question that we now turn.

## The Collapse of the Post-War Boom

Compared to the foregoing explanations, it can be argued that the collapse of the post-war boom – or what is known as the 'golden age' period of 1950–1973 (Maddison 2001, 125) – provides the only ultimate explanation for social democrats' embrace of neo-liberalism. The collapse of the post-war boom explains the rising influence of ideas emphasizing the removal of government constraints on business, the neo-liberal shift that was later reflected in trends in EU policy, and the advent of policies that helped to bring about globalization. The evidence for the individual countries is set out in the case studies. Here we simply review the international impact and the implications for social democracy generally.

The post-WWII boom represents the most remarkable expansion in capitalism's history; it achieved 'the most dramatic, rapid and profound revolution in human affairs of which history has record'. All the 'problems which had haunted capitalism in its era of catastrophe appeared to dissolve and to disappear'. In terms of economic growth rates, 'the Golden Age broke all previous records' (Hobsbawm 1994, 257, 258, 267, 286). Rates of growth and accumulation did vary from country to country (see Glyn, Huges, Lipietz and Singh 1990). But the advanced capitalist world was generally characterized by 'historically unprecedented rates of investment, output, productivity, and wage growth, along with very low unemployment and only brief and mild recessions' (Brenner 2002, 7). In his millennial study of the world economy, Maddison argues that the 'golden age' has been 'by far the best [phase] in terms of growth performance' (Maddison 2001, 125).

The boom ended in 1974. The IMF's Managing Director told his annual conference in 1975 that the 'declines in output that have occurred in the industrial countries during 1974 and 1975 … are unprecedented in the postwar period as to both magnitude and duration' (cited in Hayden 1977, 7). The OECD's July 1975 Economic Outlook described the recession as 'remarkable not only for its length and depth … The extent and simultaneous nature of the decline was unlike anything

recorded in the post-war period' (cited in Whitlam 1978, 9). From 1974, 'output, productivity, and export growth all fell sharply, instability in export volumes and GDP increased, and unemployment and inflation both rose' (Glyn et al. 1990, 45). This was the beginning of a period of decline in capitalism marred by falling investment levels, 'depression-level unemployment … and a succession of recessions and financial crises, the like of which had not been seen since the 1930s' (Brenner 2002, 7). The startling collapse of the post-war boom produced considerable economic and political confusion. Encel argued that the 'internal contradictions of neo-capitalism are such that no government … can resolve them' (cited in Patience and Head 1979, 289). Alan Day of the London School of Economics considered the crisis so severe as to force people to 'rethink the whole nature of our economic and monetary system …' (cited in Barraclough 1974, 14).

The return to economic slump vindicated Marxist analyses of capitalism's inherently unstable and internally contradictory nature; tendencies that cannot be overcome by state intervention, as Keynes mistakenly believed (Harman 1984). Common explanations for the resumption of crisis included the impact of the hike in oil prices in the early 1970s, and rising government spending.[3] As Harris (1983, 96) argues, rising oil prices may have been the straw that broke the camel's back, but the point is to explain 'the peculiar propensity of the camel's back to break'.

According to a Marxian explanation, the end of the boom reflected capitalism's inability to avoid slumps because of its anarchic and unplanned nature but also, more importantly, the tendency towards a falling rate of profit.[4] The rate of profit is determined by the ratio of profit to total investment in capital (both 'constant' – machinery and equipment – and 'variable' – labour – capital) (Marx 1981, 133, 134). In other words, what matters is how much investment in capital and labour underpinned that profit. Marx (1981, 317, 318, 324) showed that there was a tendency for the organic composition of capital (the ratio of investment in constant capital to investment in variable capital) to rise over time under the pressure of competition among firms to accumulate more capital. This rise in the organic composition coincided with a decline in the rate of profit because labour was the source of additional surplus value (the portion of value created by a worker for which she was not paid). If variable capital did not rise relative to constant capital, the level of surplus value relative to investment would not increase (Marx 1981, 325).

It is widely accepted among businesspeople and economists that 'high profits are conducive to investment and that low profits deter investment' (Ormerod 1991, 68). Lower profit rates lead to lower rates of capital accumulation and economic growth.

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3 For a critique of these and other explanations for the return to slump, see Harris (1983, chapter 3) and Harman (1984, 122–154).

4 There is, it must be noted, not one Marxist theory of economic crisis, which is partly a product of the fact that Marx made different points at various times without summarizing conclusively prior to his death (see Mandel 1981, 42–53; Harman 1984, 122–154; Itoh 1980, chapter 4). A discussion of the merits of each of these is beyond the scope of this book (see Harman 1984, 122–154). We have concentrated instead on the theory of the falling rate of profit. For a more in-depth discussion of this theory, see Marx (1981, especially chapter 13). For an application of the theory of the falling rate of profit to the onset of crisis in the 1970s, see Harman (1984).

As Marx (1981, 350) put it, a falling rate of profit 'slows down the formation of new, independent capitals and thus appears as a threat to the development of the capitalist production process'.

The decline in the rate of profit is not, however, a consistent downward spiral (Marx 1981, 319–321). Moreover, there were factors 'counteracting' the tendency for the rate of profit to fall. If governments could not overcome the tendency of the rate of profit to fall permanently, their actions – and those of capitalists themselves – could raise, or at least stem their decline (Marx 1981, 339–348). This is what happened during the post-war boom. An important 'counteracting' factor in this case was arms spending. Marxist economist Michael Kidron developed his theory of the 'permanent arms economy' to explain the longevity of the post-war boom. Among the most important consequences of massive arms budgets in the post-war years was a rate of capital accumulation lower than would otherwise have been the case, as money that could have gone into economic development instead was ploughed into arms. This in turn slowed down the increase in the organic composition of capital and the fall in the rate of profit as large amounts of capital were invested neither in the means of production nor consumer products, but into products that were regularly destroyed or at least did not re-enter the production process to contribute to further capital accumulation. This meant slightly *lower* growth but also a *longer* period of growth (Kidron 1974, 19, 20).

High arms spending was thus critical to staving off crisis during the post-war boom by sustaining a higher rate of profit. While Brenner has significant disagreements with Marx's theory of the rate of profit and the labour theory of value – and thus ultimately has a different theory about what has caused the falling rate of profit (see Hoveman 1999, 61) – he presents empirical evidence that 'the [upward] trajectory of the profit rate' was central to the boom. These high rates of profit contributed to 'a generally excellent business climate throughout most of the first two post-war decades, again encouraging rapid capital accumulation' (Brenner 2002, 9).

In contrast, the rate of profit fell during the period leading up to the end of the boom. The reduced levels of economic growth in the 1970s compared to the 1950s and 60s reflected a decline in the rate of profit enjoyed by businesses internationally (Kidron 2002, 88, 90). Dumenil and Levy (2004, 23, 24) claim that there has been a revival in profit rates in Europe (including Germany, France and the UK) and the US (although here it declined again in 1997) since the 1980s.[5] They concede, however, that the post-war boom ending crisis was driven by a 'decline in the rate of profit since the 1960s'. Brenner cites figures showing that between 1965–1973 there was a 43.5 percent decline in the rate of profit in US manufacturing, and a 25 percent decline in manufacturing profit rates across the G7; over the same period profit rates in the US private sector fell by 30 percent and by 20 percent in the G7 group. Furthermore, with few exceptions, there was barely any improvement in profit

5 At the same time, they argue that rates of capital accumulation did not recover because finance capital prevented a rise in the rate of 'retained profit', or the rate of profit after payment of interest and dividends': 'the rate of accumulation is controlled by the rate of retained profit and the rise in the rate of profit before the payout of interest and dividends was confiscated by finance' (Dumenil and Levy 2004, 120, 77).

rates during the 1980s and 90s in the advanced capitalist nations, which explains the continued stagnation of capitalism (Brenner 2002, 17, 22, 39, 41, 274, 285). Other data points to almost a 33 percent decline by 1973 in profit rates in North America, Western Europe and Japan in manufacturing and business, and by 1979 these were half or less what they had been at their peak (Glyn et al. 1990, 83).

This continued stagnation is borne out by economic growth comparisons between the post-war boom and the years since it ended (see Tables 3.1–3.3). Brenner wrote of the advanced capitalist nations' failure to 'transcend the long downturn during the course of the 1990s – or even to match their performance of the 1980s or 1970s, let alone the 1960s and 1950s'. He concludes that in the first half of the 1990s the three largest economic blocs (Japan, North America and Western Europe) experienced their worst five-year period of growth performance since 1945 (Brenner 2002, xiv, 46). Despite hype about the success of the US economy at the end of the 1990s, Kidron (2002, 92) notes that the famed 'Goldilocks' economy managed to post an average annual growth rate of just 2.2 percent, compared to 3.5 percent and 4.5 percent during the 1950s and 60s respectively. When that boom ended it was a reminder, Stiglitz argued, of the boom-slump nature 'which had marked capitalism for two hundred years. Except this time, the bubble … was greater, and so too were its consequences' (Stiglitz 2003, 3). Global economic growth in 2003 was less than half the *worst* figure for any year between 1960–1973 (Harvey 2005, 155). Whereas global growth rates in the 1960s averaged around 3.5 percent and in the 1970s 2.4 percent, in the 1980s and 90s they fell to 1.4 and 1.1 percent respectively, and the early years of the 21st century had barely seen them reach 1 percent (Harvey 2006, 42).

Growth has been much stronger over 2004–2006, driven in part by the rising share of world GDP accounted for by China and India, which have both recorded very high growth rates in recent years (Treasury Department 2006). But the 'sub-prime' mortgage credit problems hover ominously over the world economy in 2007–2008 and, given the economic trends of recent decades, it would be näive to see the growth rates of the last few years as the beginning of another prolonged upturn.

**Table 3.1 Economic growth rates for six major nations (percentage increase per year)**

| Country | 1950–1973 | 1973–1997 |
|---|---|---|
| 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).

**Table 3.2 Annual average compound growth rate of per capita GDP**

| Region | 1870–1913 | 1950–1973 | 1973–1998 |
|---|---|---|---|
| Western Europe | 1.32 | 4.08 | 1.78 |
| Japan | 1.48 | 8.05 | 2.34 |
| Total Advanced Capitalist | 1.56 | 3.72 | 1.98 |
| World | 1.30 | 2.93 | 1.33 |

*Source:* (Maddison 2001, 129).

**Table 3.3 Declining economic growth (annual percentage change)**

| GDP | 1960–1969 | 1969–1979 | 1979–1990 | 1990–2000 |
|---|---|---|---|---|
| US | 4.6 | 3.3 | 2.9 | 3.2 |
| Japan | 10.2 | 5.2 | 4.6 | 1.3 |
| Germany | 4.4 | 3.6 | 2.15 | 1.9 |
| Euro-12 | 5.3 | 3.7 | 2.4 | 2.0 |
| G-7 | 5.1 | 3.6 | 3.0 | 3.1 |

*Source:* (Brenner 2002, 47).

Since the collapse of the post-war boom, individual nations and regions have enjoyed periods of heady growth. But even in these cases, the global uncertainty, instability and crisis loom like a dark shadow over the national economy, keeping the pressure on governments for neo-liberal reforms (see Chapter 7 especially). According to Stiglitz (2003, 21), the 1990s were 'a decade in which one economic crisis seemed to follow another – every year there was another crisis'. These successive crises had 'no counterparts' during the post-war boom (Brenner 2002, xiv).

*The Impact on Social Democracy: A Double Blow*

Economic conditions historically have been critical to the ability of social democracy to advance reforms that would make a significant difference to its working class supporters. As Head and Patience (1979, 5) explain, because a 'reform government's programme is likely to be very expensive', it is 'unusually dependent on buoyant economic conditions to help ensure a rapid expansion of government revenues to avoid a crippling budget deficit'. The German social democrat Karl Kautsky conceded 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). The post-war boom's continued high rates of growth therefore allowed for more generous programmes. Social democrats saw the prosperity of the boom as obviating the need for nationalization (Padgett and Paterson 1991, 1, 2). Such was the boom's strength that influential Labour Party

politician and theorist Anthony Crosland regarded economic problems as relics of the past. Social democrats could turn their attention to 'more important spheres' like 'personal freedom, happiness, and cultural endeavour; the cultivation of leisure, beauty, grace, gaiety, excitement, and of all the proper pursuits … which contribute to the varied fabric of a full private and family life' (Crosland 1963, 3, 4, 62, 353).

The post-war boom had a second important consequence in terms of social democracy's desire for class collaboration. As Moschonas (2002, 65, 66) argues, 'the satisfaction of working-class interests' under capitalism hinge 'largely on their compatibility with the private profits of the owners of capital. When such compatibility does not exist … capital gets out'. Social democrats' ability to offer reforms to its working class constituents *and* satisfy business interests was strengthened considerably during the boom because growth was running strongly, profits were flowing, and investment opportunities abounded. Traditional social democratic reforms were politically amenable to capitalism only because the buoyant conditions of the post-war boom meant that such reforms were comparatively much cheaper, and did not threaten the economic system (Eley 2002, 7). As Harvey (2006, 14) observes, during the boom '[r]edistributive politics, controls over the free mobility of capital, public expenditures and welfare state building' coincided with 'relatively high rates of capital accumulation and adequate profitability in most of the advanced capitalist countries'. To some extent, the post-war boom nullified the social democratic Catch-22 identified by Coates (see above), whereby reforms for constituents rely on strong economic growth, which in turn necessitates policies that favour capital accumulation and conflict with the interests of workers. The policy framework of the post-war era appeared favourable to capital accumulation *and* workers' interests.

This explains why many commentators have regarded the post-war period as the 'golden age' of social democracy compared to 'what went before' and 'what was to come after' (cited in Pierson 2001, 39, 40). It is arguable that in all four case studies, the most significant social democratic measures of these parties' histories were implemented on the strength of the post-war economy (see case studies). This seems somewhat paradoxical if it has been argued that social democracy moved to the right in the post-war period, evident in revisions like the Bad Godesberg Programme in Germany (Birchall 1986, chapter 8). This can be explained simply, however, by the economic conditions which, despite any move to the right, allowed for social reforms to be enacted like never before. Hence Webber's (1983, 23) point that social democratic policies were implemented in the post-war period often by parties that were not social democratic.

This all changed when the boom came to an end and economic growth – the 'raw material' of social democracy – came to a standstill in 1974 (Webber 1983, 23). The reasons for this are straightforward. According to Paul Pierson 'slower economic growth impedes the growth of wages and salaries, on which the revenues of the welfare state heavily depend'. Pierson goes so far as to say that stagnating service sector productivity and lower economic growth post-1973 'probably go a long way towards explaining the current predicaments of welfare states' (Pierson 1998, 544, 545). In times of economic downturn, there is sufficient wealth to fund social reforms, but now such reforms are more damaging to the profits of firms because they need

to be funded by higher taxes on profits and the wealthy, rather than by the stronger revenues and incomes generated by a booming economy. Redistributive reforms are therefore much more strongly resisted in these tighter commercial conditions. This explains why the apparent class harmony of the post-war period gave way to 'polarisation and periodic eruptions of conflict' as competing claims by capital and labour were put to government (Padgett and Paterson 1991, 49).

As business sales and profits fall, companies are forced to compete in tighter conditions for markets and profit shares. In this context, capital desires government policies that increase profits and expand investment opportunities. Harvey (2003, 147–149) argues that the Washington Consensus policies were designed to do just this, by allowing capital access to areas previously denied by, for example, government regulation and state ownership. These policies, Harvey (2003, 158) argued, were the modern equivalent of the 'enclosure of the commons' that helped to hasten the very development of the capitalist mode of production. Similarly, Dumenil and Levy (2004, 9) argue that neo-liberalism was driven by the decline in profit rates in the advanced countries which, it was believed, could be restored only by policies that improved the conditions for business investment.

While social democratic politics might have been in decline before the recession hit – in part, due to the rise of the New Left (Padgett and Paterson 1991, 40) – the impact was very evident, as we shall see in the case studies. The social democrats studied in this book were all in power in 1974 and to greater or lesser degrees were forced to respond to the change in conditions by curtailing plans for reform and implementing measures injurious to their natural constituencies. Inevitably, there were differences in response due to the different histories of the parties and their policies, and to the different ways in which the countries were affected by the crisis. The evidence of a rapid change in policy is least clear-cut in Sweden. This can be explained in part by the fact that the Swedish economy initially did not suffer the effects of the international recession in 1974–1975 (Särlvik 1977, 93). Furthermore, the SAP was out of power – which, of course, allows parties more freedom to manoeuvre – for six crucial years after 1976. The SAP's 'new direction' was most evident when it returned to power in 1982 (see Chapter 11). In contrast, the British Labour Party and the SPD – both of whom were 'quite quick to respond' (Padgett and Paterson 1991, 155) – were in power from 1974–1979 and 1974–1982 respectively during the critical initial years. While the ALP was also out of power from the end of 1975 till 1983, its neo-liberal shift had commenced in government in 1974 when it was in power. This relatively quick response to the crisis while in government undermines explanations for the neo-liberal turn based on long-term trends, such as globalization or the decline of the industrial working class.

As we shall see in the case studies, this stress on the need to introduce policies favourable to business investment is a recurring theme in modern social democrats' policies. While social democracy has abandoned its traditional approach for neo-liberalism, there is continuity between old and new in the sense that social democracy has always worked within the parameters set by capitalism. The parameters narrowed when the post-war boom ended, and have continued to narrow as the world economy has deteriorated further. Social democracy could not continue to pledge significant social reforms because 'traditional social democratic solutions … had by the

mid-1970s proven inconsistent with the requirements of capital accumulation' (Harvey 2006, 15). Neo-liberal policies did on the other hand fit the needs of capital accumulation. For these reasons challenging neo-liberalism would have meant then – as it does now – provoking conflict with capital. Reformists are, however, about social peace and class mediation (Cliff and Gluckstein 1996, 89, 90).

The ability of social democracy to promise reforms but at the same time avoid class conflict was also disrupted by the discrediting of Keynesianism. When the international recession struck in the mid-1970s, traditional Keynesian measures proved incapable of restoring previous growth and employment levels; and the emergence of stagflation, since it was neither anticipated nor explicable in Keynesian terms, constituted 'anomalies' for the paradigm in the sense described by the scientist Thomas Kuhn (Sawer 1982, 1; Kuhn, cited in Hall 1993, 284, 285). While not a seamless transition, the demise of Keynesianism eventually paved the way for the domination of neo-liberalism (Harvey 2005, 12).

In the wake of Keynesianism, social democrats lost 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 between being responsible managers of capitalism or advocates of policies to raise workers' living standards, but not both. As we shall see in the country case studies, their choice was to be successful managers of capitalism. This is consistent with social democracy's acceptance of the limits of existing political-economic institutions and their desire for social peace.[6]

## Can the Economic Base of Social Democracy be Restored?

The ability of social democracy to return to its reformist past is directly bound up with the question of whether the world economy can regain its post-war health because, as was shown above, it needs a strong economic base to allow it both to appease capital and provide some reforms for its traditional constituency. Without strong economic growth, it can only accomplish the former. Judging by the economic indicators cited above, the neo-liberal measures described by Harvey (2003, 158) as the modern equivalent of the 'enclosure of the commons' have been spectacularly unsuccessful in restoring capitalism to its post-war health. The fact that such measures have not been successful in this regard underlines the intractability of the current economic woes.[7] If neo-liberalism has failed to check the crisis, Keynesian solutions are unlikely to be the answer. The problem is not just that Keynesianism has been 'badly tarnished' (Przeworski 1985, 206) by its failure to prevent crisis from re-emerging in the 1970s, there is also the problem of agency: which social democratic party or politician will

6 While it could be argued that prioritizing the needs of capital at the expense of labour also was not conducive to social peace, the structural power of capital and its hegemonic position in society mean that its interests were going to be met ahead of labour's.

7 This does not undermine the argument that neo-liberal policies were aimed at improving capital accumulation. While they have not returned capitalism to its post-war health, accumulation rates would undoubtedly have been lower in their absence, as many opportunities for business investment would have remained closed to capital.

argue for them, and even if they did how would they overcome the unsuitability of Keynesian solutions to the needs of capital accumulation?

According to Wolfe (1978, 122), writing not long after the crisis commenced, a 'structural' analysis suggesting that the conditions permitting the success of social democracy in the 1950s and 60s were unique and not likely to be repeated again, would be proven right only by 'future capitalist development or lack thereof'. The continued decline of capitalism over more than 30 years since would suggest that this structural analysis has been vindicated. It is not argued that the world economy will continue in one long downward spiral. But no matter what policies are employed by governments, there is little chance of a return to the buoyancy of the post-war period, which owed to unique circumstances. Key contributors to the exceptional strength and longevity of the post-war economy were: the destruction of capital, infrastructure and property wrought by WWII, and the way in which this gave rise to a new period of capital accumulation (see Van der Wee 1986, 26); and the Cold War context, with its high arms spending and associated effects (see above).[8] An additional unique consequence of the Cold War that fuelled the boom was the US's politically motivated desire to rebuild Germany and Japan and provide aid through the Marshall Plan (Hobsbawm 1994, 275, 276).

Perhaps another world war might usher in a prolonged phase of high growth, but as Harman argues, 'the scale of the suffering would have to be very great indeed'. A nuclear war might work, but only after destroying much valuable capital – not to mention most of the planet and its people – in the process (Harman 1984, 121). An ecological meltdown might pave the way for another long boom, but only for those who managed to survive, and even then conditions to sustain productive life might not exist. High arms spending is unlikely to provide a long-term solution to the problem for the same reasons that it was eventually curtailed: higher arms spending by the US and UK *vis-à-vis* Japan and Germany allowed the latter two to devote more of their resources to the productive economy and improve their competitiveness relative to the US and UK, who were then forced to reduce their arms spending in order to play catch-up (Hoveman 1999, 68, 69). In general, high arms spending drains the economy from which the spending is drawn in the first place, which, in a vicious cycle, in turn makes it more difficult to sustain an arms budget (Harris 1983, 40).

Another traditional way in which capitalism has emerged from crisis is recession itself, which allows uncompetitive firms to go bust and cheapens the price of capital and labour. These can then be bought up by those still in the market, allowing for a new round of accumulation to commence. Yet, as Hoveman (1999, 63) argues, this process is unlikely to provide the answer: the increase in concentration and

8 While Van der Wee argues that this contributed to the slow rates at which growth initially resumed in Europe and other affected areas, there is no doubt that the destruction paved the way for much of the rebuilding that followed in a manner not dissimilar from the way in which arms spending, by effectively destroying much value, contributed to the boom (see above). Armstrong, Glyn and Harrison's (1991, 7) point that much capital and machinery was unharmed by the war does not detract from the above argument: the capacity and resources to carry out the reconstruction that was needed was there at the war's end.

centralization of capital in recent decades has produced units of capital large enough to bankrupt the system as a whole were they permitted to go to the wall. It is for this reason that governments have propped up inefficient capitals in countries such as Japan (bank nationalizations) and the US (including the bailout of Long Term Capital Management in 1998, and more recently central bank responses to problems in the 'sub-prime mortgage' market in 2007).

It is not argued that profit rates cannot be restored, or at least increased, in the current period: in Australia, profit rates since the 1990s have experienced a significant regrowth, but this was achieved by cuts in real wages and state attacks on workers and unions (see case study). This is in contrast to the post-war period when high profit rates went hand-in-hand with rising wages and living standards. Increased exploitation of labour is, according to Marx (1981, 339–342), one factor 'counteracting' the tendency of the rate of profit to fall. But if higher profit rates have to be achieved by more intense exploitation of workers, then this is of no use to social democracy, which should be about reducing the exploitation of workers and granting them a fairer share of the fruits of their labour.

This persistent stagnation, and the unlikelihood of another long boom, means that social democratic parties cannot be expected to return to reformist policies based on reducing inequality, 'civilizing' capitalism, and improve living standards for the working class and the poor. In a sense, then, social democracy's neo-liberal policies follow from an accurate reading of what is possible within the political and economic framework of contemporary capitalism.

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Chapter 4

# Political Consequences of the Death of Social Democracy

In the previous chapter, we examined the causes of the death of social democracy. Now we turn to some of the political consequences. These include: electoral setbacks and defeats for social democrats; falling social democratic party membership; increased support for minor parties on both the Left and Right of politics; and the political context for the emergence of the AGM. In a sense, it can be argued that these stem ultimately from the breakdown of the boom, which was the cause of the death of social democracy. Yet, it is in response to the death of social democracy at the political level that many of these things have arisen. The polarization and volatility of the 1990s, it is concluded, is likely to continue as the absence of a social democratic alternative to neo-liberalism entices voters to consider more radical options.

The timing of the political consequences varies somewhat in the case studies. For instance, in Australia the increased support for minor parties in response to the ALP's move to the right was first evident in the late-1980s. While the SPD, too, lost votes to the Greens in Germany from around the 1980s, the most significant consequences have occurred in recent years, including the rise of the Left Party in 2004–2005. This might seem unsupportive of the location of the death of social democracy in the fallout from the end of the post-war boom in the 1970s. This time lag is partly explicable by the fact that, in the case of the SPD, it was out of office for most of the 1980s and 90s; when it took power and oversaw unpopular reforms these political consequences became most visible. A similar pattern is discernible in Britain. Conversely, because the ALP and SAP were in power through most of the 1980s and 90s, the leaking of support to other parties and membership losses attributable to its policy direction, were observable earlier.

## Neo-liberal Convergence

A key factor in shaping some of the above political consequences is the convergence of mainstream parties around the neo-liberal model. As we shall see in the individual case studies, there is evidence for this at both the objective policy level and at the level of public perceptions, and numerous politicians themselves concede some degree of convergence. In a sense convergence itself is not new, because as many commentators recognize there was consensus of a kind around Keynesian style policies in the post-war period (Padgett and Paterson 1991, 35). The difference then was that the convergence was more amenable to social democracy's traditional

approach of intervening in the economy to regulate capitalism, and egalitarian policies did not foster the discontent that neo-liberal policies do.

Neo-liberalism is anathematic towards traditional social democracy. Parties of 'centre-left', 'centre-right', and 'conservative' varieties have all promoted neo-liberal policies (Petras 2003a). The actions of social democrats, according to Przeworski (2001, 325), have varied from 'accepting the fiscal constraints while continuing to pursue remedial social policies, to a wholehearted embrace of neo-liberal prescriptions. In any case, policy regimes are converging again, this time to the right'. By the end of the 20th century there had 'never been such widespread questioning of what social democracy stands for and whether it still offers distinctive policies and goals' (Gamble and Wright 1999, 1). Perry Anderson's comment is true in so far as it applies to the established parties: 'For the first time since the Reformation, there are no longer any significant oppositions – that is systematic rival outlooks – within the thought-world of the West; and scarcely any on a world scale either … ' (Anderson 2000, 17). As a result, parties now engage in brand differentiation along the lines of 'Pepsi or Coke' (Friedman, cited in Antonio 2003, 48).

The collapse of the post-war boom was a key contributor to this because it removed the economic platform of traditional social democratic politics, and with it the basis for a reformist alternative to the ascendancy of neo-liberalism. The increased emphasis on the personalities of candidates, marketing campaigns, and stage management (Crouch 2004, 4) can partly be explained by this lack of fundamental disagreement between parties. The inability to implement traditional social democratic policies is a significant factor in growing voter perceptions of a lack of difference between parties: it barely matters which party is in power in terms of progress on issues like unemployment or inequality (Pelizzo 2003, chapter 5). These perceptions of convergence are in turn key drivers of important political consequences.

## Electoral Setbacks and Defeats for Social Democracy

It is clear that the neo-liberal trajectory of social democratic parties has been politically costly. This is undoubtedly related to the pain neo-liberal policies have caused, including greater inequality between nations and within poorer ones, lower growth rates in many countries, often higher rates of poverty, and even greater insecurity for those materially better off (Stiglitz 2003, 5, 21). Much was made of the social democrats' electoral success at the end of the 1990s. Yet, as Braunthal (2003, 25) argued, the ephemeral nature of this success was a product of social democrats' betrayal of these voters' hopes for more redistributive policies.[1]

It is not argued here that all declining electoral support for social democracy is attributable to neo-liberalization. The recent electoral setbacks that are more closely related to the neo-liberal policy records of social democrats in office will be the focus here. These setbacks cannot be explained by long-term trends such as greater

1 In 13 of 15 EU-member states centre-left or left parties were in power at the end of the 1990s, but by 2002 the parties were in government in only Greece, Sweden, Finland and the UK (Marchart 2002, 811).

levels of voter education, or trends towards individualism (see Walton 2000). Nor can these setbacks be attributed to a declining industrial working class.

In Australia, the ALP's historic defeat at the 1996 federal election was widely interpreted both within and without its ranks as a revolt against the party's neo-liberal reforms in the 1980s and 90s, including privatization and labour market deregulation. While at the time of writing Labor looked to have a strong chance of returning to power at the national level, it is clear that much of this has to do with a shift in public sentiment against the ruling conservative government. Furthermore, there is widespread scepticism about what change the ALP will deliver, and little deep support for its policy agenda within the community. Any honeymoon for a Labor government is likely to be very brief.

In Britain, Tony Blair delivered three consecutive general election Labour victories (1997, 2001 and 2005) for the first time ever. But the size of these victories was largely due to discontent with the Tories and biases in the electoral system. Moreover, the victories obscure a very tepid base, as Blair presided over a freefall in the party's vote that saw him win in 2001 with less votes than his predecessor Neil Kinnock lost with in 1992. Drastically lower turnouts were evident in many Labour constituencies. The party also suffered setbacks at local and European elections under Blair. Evidence suggests that disappointment with New Labour's failure to deliver on public services, its neo-liberal record more generally, and its entry into the Iraq war were key factors. These culminated in Blair's decision to stand down in June 2007.

In Germany, the SPD came to power in 1998, like Labour, on the back of public discontent after a long stretch of rule by its conservative opponents. It almost immediately saw a loss of support, and was fortunate to be returned to power in 2002. From that point on, it was defeated in almost every local and state election held in the lead up to the 2005 federal election where it lost the Chancellorship. This defeat was widely interpreted in the context of the SPD's pursuit of its *Agenda 2010* package of neo-liberal welfare and labour market reforms, which provoked large-scale protests and resistance.

The support base of the once seemingly invincible SAP has also become increasingly fragile. Its loss in 1976 for the first time in 44 years coincided with the beginning of the economic downturn, while the enactment of major austerity measures after a deep recession cost it power in 1991. The loss in 2006 is more complicated, but nonetheless occurred after many years of social democratic 'modernization', including labour market reforms, further retrenchments of the welfare state, and an unpopular (among social democratic supporters at least) push by the SAP for accession to Europe.

## Declining Social Democratic Party Membership

Another important political consequence has been the loss of social democratic party members. Declining membership is evident across most political parties, and sociological and technological factors are prominent among explanations for this (Scarrow 2000, 82). Technological developments such as radio and television

provided the means for entertainment inside the home that had once almost exclusively been provided outdoors, competing for the time people spent attending meetings or engaging in other party activities (see Hobsbawm 1994, 306, 307). Social democratic party politicians themselves argue that these factors have been critical to their membership declines (see case studies). Also, parties campaign more through the media, and have less need to mobilize members (Dalton and Wattenberg 2000, 12).

One should not ignore these factors, but some parties have suffered worse falls than others, and the timing of the membership decline sometimes does not support explanations based on long-term changes in society such as those mentioned above. Selle and Svasand (1991, 470) provided evidence that some parties had experienced rising membership in Europe in the 1980s, and they cited the emergence of new parties as proof that 'the idea of having parties is not in decline, although there may be dissatisfaction with *established* parties or with the political system'. There has in fact been an increase in the number of new parties since the end of the 1970s (Dalton, McAllister and Wattenberg 2000, 41). Although in the 1990s there was a consistent deterioration in party membership across Europe in terms both of total membership numbers and the level of membership as a proportion of the electorate, not all individual parties experienced declines, at least in terms of the first indicator (Mair and van Biezen 2001, 11, 17–19). Also, the timing of this fall in membership does not support the sociological explanation. There was 'no European-wide trend' in party membership in countries in the 1980s, but by '*the late 1990s* … this picture has changed completely. Thus in each of the long-established democracies the absolute number of party members has now fallen, and sometimes substantially' (Mair and Van Biezen 2001, 13; emphasis added). While Mair and Van Biezen (2001, 14) themselves suggest that the falls may be explained by the factors cited above, it seems unlikely that the impact of these sociological trends would have been felt only in the 1990s.

The membership declines are unlikely to be related to political apathy or declining collectivism. Allen (2006, 66) writes of the 'Zeitgeist of protest' in Britain – a reference to a series of mobilizations in recent years, including the fuel protests of September 2000, the anti-capitalist mobilizations in May 2001, and the Iraq War demonstrations in 2003 – which seemed to contradict the view of the modern materialistic citizenry being too busy to engage in political activity. There is also evidence of heightened interest in politics in most advanced democracies alongside declining activity with political parties (Dalton, McAllister and Wattenberg 2000, 57).

While falling membership of conservative parties is likely to have somewhat differing causes, the simultaneous membership decline may be explained by the fact that voters see little point in membership if the parties are essentially in agreement. Braunthal (1994, 353) makes this argument in relation to declining membership in Germany's major political parties. While recognizing the difficulties of demonstrating that ideological convergence is behind falling party membership, Bartolini (1983, 205) suggests that in terms of individual motivations, 'the level, intensity and spread of ideological beliefs in a given period … should be considered as the single most important determinant of fluctuations in party affiliation from

an historical perspective'. As Mair and van Biezen (2001, 14) themselves argue, in light of declining partisanship and eroding party identities, citizens are 'probably less likely to be willing to devote the time and energy that is often required by active membership'.

There is also evidence that the policy direction of social democrats has contributed to the membership decline. Perpetual 'modernization' of social democratic parties, according to Scott, starves them of ideological fuel, creating membership and electoral crises for them down the track (Scott 2000, 253, 254). It is impossible to determine what proportion of the decline in each case study is derived from disillusionment with the embrace of neo-liberalism, but it is likely to be significant. In Australia, for instance, surveys have shown that membership losses in the 1980s and 90s were partly due to discontent with the neo-liberal direction of party policy and the perception that it betrayed traditional party values. It is also notable that membership of the Australian Greens has risen, suggesting that parties are not inherently unable to attract members in the current political context.

In Britain, recent membership declines point to dissatisfaction with the reality of New Labour in power. The party's membership levels increased from 266,000 in 1993 to 400,000 in 1997 (Seyd 1998, 66). After the election of Blair in 1997 it then went into steep decline: almost 60 percent of the membership left the party between 1997–2006. This rapid decline is inexplicable according to sociological explanations. Moreover, party figures report that the gulf between members' hopes and New Labour practice has been a key factor in this dramatic decline.

In Germany, too, there were rapid losses in membership in the 1990s. Figures from authoritative SPD sources show that the membership figure has fallen by around a third since 1994, and that the sharpest drop has occurred since it has been in office. Interviews with SPD politicians confirm that the rapid membership losses were partly related to membership discontent with neo-liberal reforms enacted after taking power in 1998.

Similarly, in the case of the SAP there was a major drop in membership in the 1990s that is arguably related to numerous political decisions at odds with the opinions of many members. Research showed that in the early 1990s, total membership levels either stayed level or increased, only then to fall rapidly from the mid-1990s. One explanation is that membership stabilized in the lead-up to the party's re-election in 1994 as the party benefited from the backlash against high-unemployment and the non-socialist government's (1991–1994) austerity policies, but then fell out of disappointment with the neo-liberal medicine prescribed for Sweden by the SAP upon its return to power.

## Greater Political Polarization

In a context in which all mainstream political players pursue neo-liberal politics, people perturbed by this are increasingly willing to embrace more radical politics. In the 1980s and 90s 'most democratic party systems have experienced new political challenges from Green parties on the left and nationalist or neo-liberal parties on the right' (Dalton, Wattenberg and McAllister 2000, 40, 41). The neo-liberal consensus

has contributed to a polarization brought on by differences over how to respond to it: the left wing of this polarization is evident on the streets in the form of the AGM, whereas the right's presence has been felt more at the ballot box in the form of increased voting for populist and xenophobic politicians (Petras 2003a). Cliff proposed that a combination of features in the 1990s resembled the '1930s in slow motion': economic crisis, a revival in workers' struggle, and polarization to the left and right. It was in 'slow motion' because the 1990s economic crisis was not on the scale of the Great Depression, workers' struggles were not as large as the wave of factory occupations staged by workers in France in 1936, and nor were mass fascist movements present in the streets as they were in Germany and Italy. But since the 1970s, there had been three world recessions, notable revivals in workers' struggles in some countries, and National Front leader Jean-Marie Le Pen received the support of millions of French voters (Cliff 2000, 84, 85).

In terms of the electoral consequences on the left, some minor parties have increased their support on the back of social democracy's failure to offer an alternative to neo-liberalism. The 'vacuum thesis' argues that as parties embrace positions different to their traditional policies it opens up a vacuum for a challenger party to fill. This, according to Olsen, is a variation on the notion of 'political opportunity structures': [I]f a party moves away from its voters on one or more issues, other parties have greater opportunities to win those voters if they can pitch their message in a way that appeals to them'. Olsen saw evidence of this theory at work in 'several European countries' as 'left-wing rivals' gained from the 'perceived rightward shifts' of social democrats (Olsen 2007, 207).

One problem with this is that it ignores the way in which political forces on the right can grow (see below). Yet, there is no doubt that more Left electoral challengers have emerged or been strengthened by the rightward shift of social democrats in a range of countries (Patton 2006, 208). As Moschonas notes (2002, 154), social democrats are now coming under 'challenge from the emergence of peripheral political poles representing a "new politics"', including green parties which predominate among them. He argues that they represent 'a real challenge to the social-democratic parties' as well as constituting 'one of the most remarkable political developments of the last 20 years'.

In the case of Australia, the Greens have gained a significant number of votes from the perception that their policies are more social democratic than those of the ALP. In Britain, the biggest beneficiary to date of New Labour's neo-liberal turn has been the Liberal Democrats, and on a smaller scale, the Respect Party (led by a high profile ex-Labour MP), which has grown on the back of opposition to the war in Iraq in particular. In Germany, the clearest beneficiary has been the newly formed Left Party. In Sweden, the former Stalinist Left Party gained in the 1990s as a result of disenchantment with the ruling SAP by campaigning for traditional social democratic policies, but its support peaked at the 1998 election, and has fallen since. The prospects for these parties are thus not equally bright, and it is clear that agency is an important factor (see Chapter 13).

**The Alternative Globalization Movement**

The gains to the Left from social democracy's support for the neo-liberal consensus have also been evident on the streets (Petras 2003a). This has occurred in some respects with the rise to prominence of the AGM in Seattle in November-December 1999, where tens of thousands demonstrated against the World Trade Organization (WTO) talks held there (Danaher and Burbach 2000). Many incorrectly assumed that the September 11 terrorist attacks killed off the AGM.[2] In fact, many elements threw themselves into movements against the 'war on terror' and the war on Iraq (Ashman 2003; Engler 2004, 1). More recently, the AGM's presence was felt in large militant demonstrations against the G8 meeting in Germany in June 2007 (Clark 2007).

The nature of this movement and what potential it holds for the building of alternatives to neo-liberalism is discussed in Chapter 13. For now it is important to see that it is partly a consequence of social democracy's failure to offer the slightest resistance to Washington Consensus-style policies. As Petras (2003a) argues, the 'convergence of ex-social democrats and ex-communists with liberal and conservative parties in support of international capital, imperial wars and anti-labor legislation has provoked hundreds of thousands of workers, public employees and particularly young people to turn to "street politics"'. According to Harman, the demonstrations against the WTO in Seattle in 1999 were connected to, among others, the support for anti-Blairite 'Old Labour' candidate Ken Livingstone in the London mayoral election in 2000 and the 15 percent of people who 'voted left of Labour in the London Assembly election' at the same time. The AGM, he suggested, was merely the tip of the 'iceberg' of discontent with neo-liberalism (Harman 2000, 3). The lack of any radical dimension to social democracy prevents it from supporting the AGM, whose agenda of challenging corporate power and prioritizing human need over profits is not light years from traditional social democracy. The SAP in Sweden, according to one of its own student leaders, did not benefit from the anti-Iraq war movement and AGM because it was not left-wing enough compared to the Left and Green parties in that country (Larsson 2005). Tony Blair, in response to mass protests at the EU summit in Sweden in 2001, maintained that it was 'very important that we don't concede an inch to these people' (cited in Steinberg 2001).

**Increased Support for the Far Right**

In this book I have sought to avoid the definitional minefield about what constitutes 'Far Right'. A range of other terms is used in the literature, including 'radical', 'new', 'populist', and 'extreme' right (see Ignazi 2003, chapter 2). I adopt the term Far Right in part for the same reason Ignazi (2003, 30) uses 'Extreme Right', namely because it locates the parties at the furthest right part of the spectrum. The Far Right parties examined in Britain, Germany, and Sweden are in fact close to being fascist or neo-fascist parties. All of the parties arguably share most, if not all, the five traits

2 Mertes (2004, x) notes that attendance at the 2002 World Social Forum was five times larger than the year before.

identified as common to Far Right parties: nationalism, racism, xenophobia, anti-democracy, and support for a strong state (Mudde, cited in Ignazi 2003, 27).

While the political context is one in which the Left has gained, the Far Right can also flourish. The political polarization means that people are looking for alternatives at both ends of the political spectrum. The rise of the Far Right is no doubt a very complex and multi-faceted phenomenon. The broader debates about the emergence of the Far Right in the 1980s and 90s are beyond the scope of this book.[3] Yet, there is evidence that one theme in the debates – the abandonment of social democracy and the convergence around neo-liberal policies, and the way in which this has helped the Far Right alternatives to grow – is particularly relevant in the case studies undertaken in this book.

According to Neocleous and Startin, Far Right success has occurred in a period in which social democracy 'has abandoned working-class voters … but it is also a period in which most sections of the European left have given up the discourse of class altogether'. Instead, the Left has turned to 'identity politics' and 'the language of "difference" and "recognition"'. French, German and British social democrats had engaged in the rhetoric of 'security' when dealing with immigration, and it therefore 'should come as no surprise that the far right flourishes'. Rather than the Far Right parties setting the political agenda, they 'key into and play on the prevalent legitimization practices of social democracy' (Neocleous and Startin 2003, 152, 153). Moschonas maintains that the growth of the Far Right is connected to the fact that social democrats' policy approaches are no longer 'perceived as *sufficiently distinct from its neoliberal opponents*'. Voting for the Far Right, he argues, is a symbol of the 'great disillusionment among a section of the popular classes', whose socio-economic discontent can be channelled into support for authoritarian populist policies (Moschonas 2002, 108, 109). As Neocleous and Startin (2002, 151) argue, in France Le Pen was 'one of the few politicians willing to speak to, for and about the working class and unemployed'. Rensmann (2003, 116) writes of 'growing blue-collar constituencies' for the Far Right. Marquand (1999, 248, 249) warned that the electoral revival of social democracy in Europe at the end of the 1990s reflected public desire for a 'shelter' from capitalism, but if this trust was not repaid 'a turn to darker forces cannot be ruled out'.

In certain respects, this is what has happened in the cases studied here. In Australia, Pauline Hanson's One Nation (PHON) party, emerged after 13 years of ALP federal government. It received around one million votes (approximately 8 percent) at the 1998 federal election, and nearly a quarter of the vote at the Queensland State Election that same year. PHON voters were more likely to see little difference between the parties, and many of their voters came from blue-collar manual working class backgrounds. While PHON now appears to be finished as a viable political force, its early successes show the possibilities for the Far Right to succeed in Australia in certain circumstances.

Similarly, in Britain there is evidence that the British National Party (BNP) has benefited, *inter alia*, from the despair and insecurity created by neo-liberal policies,

3 For important contributions to these debates, see Betz (1994), Kitschelt (1995), Rydgren (2002), Ignazi (2003), Rensmann (2003) and Neocleous and Startin (2003).

and the perception that New Labour has abandoned the working class. The BNP has achieved significant victories at the local level, and performed increasingly well at general elections. Research found that in the areas where the BNP did best, it was able to exploit concerns around Labour's failure to improve the quality of housing by channelling it into resentment towards asylum-seekers and Muslims.

In Germany, the SPD's neo-liberal policies in government have also given impetus to the NPD [*Nationaldemokratische Partei Deutschlands*]. The NPD has won seats at the regional level, particularly in the East where unemployment and economic conditions have been particularly chronic. It has capitalized on opposition to the SPD's *Agenda 2010* labour market and welfare reforms. The combination of economic crisis and neo-liberal bipartisanship between the SPD and its main rival the CDU, particularly in the East, provide fertile ground for the Far Right.

In Sweden, the Far Right is yet to enjoy the electoral success of the BNP in Britain or PHON in Australia. But there have been some notable successes for the Sweden Democrats at the local level. Furthermore, while they have not yet broken through at the parliamentary level, the vote of these parties has been steadily rising, and many of the preconditions for future success exist (Rydgren 2002). There have also been a significant number of racist attacks in Sweden since the 1990s so the exact strength of the Far Right may not be gauged by looking only at electoral results.

## Conclusion

All these trends point to rising polarization and volatility into the 21st century. The absence of a social democratic alternative has forced voters to consider more radical options. These political consequences are important because they presage a political climate in the 21st century that has the potential to lead to new and stronger political forces for social justice, or emboldened reactionary elements emerging from the sidelines of politics to occupy more central positions. Social democratic membership decline contributes to the instability of politics and the rise of other parties, who may be able to recruit the social democrat dropouts. Alternatively, many of these may not re-enter politics, creating in the long-term a well of despair that is susceptible to manoeuvres from the Far Right.

The further decline of social democracy could lead to less stable patterns of government, the rise of new parties and Independents, minor parties holding the balance of power, and splits inside social democratic parties. The elevation of Joerg Haider's Freedom Party to a position of junior partner in the Austrian government in 2000 is an indication of what could happen as major parties lose support and minor forces extend their reach. Some of these factors will be present in some countries but not others, and what happens will in part depend on institutional factors such as electoral systems (see Chapter 13). What is certain is that the political temperature will continue to rise, and that the death of social democracy is a key contributor to this.

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# PART 2
# The Death of Social Democracy in Australia

The ALP is a striking example of the social democratic retreat from reformist politics identified in Chapter 2. Its record in federal government during the 1980s and 90s included freer trade, privatization, fiscal austerity, and tax reductions for business and the wealthy. Scarcely a progressive reform cushioned the successive blows of neo-liberalism rained down upon the ALP's working class supporters. Since losing office in 1996, it has continued in this vein. It is argued that the turning point in Labor's embrace of neo-liberal policies occurred when it was in office in the 1970s.[1] The redistributive programme on which it was elected in 1972 had assumed continued economic growth, and when this ended in 1974 eventually so did its plans for reform. The sharp change in economic conditions induced a rapid change in policy direction.

Among the political consequences of its neo-liberal direction is the historic defeat meted out to it in 1996. Surveys show that its policy record led to membership losses. The ALP also faces in the Greens the first genuine competitor to its left since the emergence of the Communist Party of Australia (CPA) in the 1920s. The rise of PHON at the other end of the spectrum in the late-1990s was also in part a product of Labor's abandonment of social democracy.

1 The ALP adopted the American spelling of 'labor'. 'Labor' thus refers, henceforth, to the ALP, while 'labour' refers to workers.

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Chapter 5

# The 'Light on the Hill' Extinguished

The ALP is an expression of the development of the working class in 19th century Australia. There is debate about the timing and location of the ALP's emergence, and about what role the defeat of the momentous strikes of 1890–1891 played in the formation of the party, in the sense of convincing union leaders that labour needed a voice in parliament (McKinlay 1981, 5–11; Childe 1964, chapter 1; McMullin 1991, 1–4). On the other hand, the party's formation – in New South Wales at least – was the culmination of gradual steps towards participating in formal politics since the early 1870s (Nairn 1973). Former Labor Prime Minister Ben Chifley described Labor politicians as 'evangelists for a great cause' whose objective was 'not simply to grease the workings of the capitalist machine so that it ran more smoothly, but to refashion the machine so that it worked in the interests of all Australians' (Day 2003, 400, 401). Chifley famously invoked the 'light on the hill': the idea that the ALP should be about providing 'better standards of living' for the 'mass of the people' (cited in Crisp 1961, 414).

Consistent with its origins, the party is generally regarded as 'labourist' rather than social democratic, devoid as it allegedly has been of the ideological commitment to socialism constitutive of parties such as the SPD. Lenin in 1913 famously described it as a 'liberal bourgeois party' that did 'not even claim to be a Socialist Party' (cited in Kuhn 1989, 41, 42). Although this comment preceded the ALP's adoption in 1921 of a 'Socialist Objective', which involved the '[t]he socialisation of industry, production, distribution and exchange', the Objective has been progressively qualified since then, and no ALP government, apart from limited nationalizations in the 1940s, has harboured any intention of seeing it through. Unlike the SPD, there was little Marxist influence on the ALP at any point in its history, and there was never any question of 'reform or revolution'. According to current leader Kevin Rudd, the ALP 'for a century fought against Marxism … We have always seen our role as what we can do to civilise the market' (cited in Shanahan 2006, 7).

These differences in the origins of the parties, as we saw in Chapter 2, do not detract from the fact that for the majority of their histories they have been demonstrably social democratic in that they have sought to reform capitalism on the behalf of the working class within the political framework of capitalist democracy. Like the other social democratic parties studied in this book, the ALP has a chequered history in terms of its achievements in this regard – perhaps even more so because of the fact that it languished in Opposition for more two thirds of the 20th century, and for most of the post-war boom years.

The watershed in terms of the party's neo-liberalization was the 1970s. When Labor regained federal office in 1972 under Gough Whitlam, there was a deep yearning for change as a result of political radicalization around the Vietnam war, the

student movement, and upsurges in industrial struggle (see Lavelle 2003, 41–98). To a limited extent, these expectations were met (see below). Yet, the combination of recession, resistance by powerful interests to certain government policies, and ruthless opportunism on the part of the conservative Opposition parties, led to the downfall of the Whitlam government in 1975 when it was sensationally dismissed by Queen Elizabeth II's representative, the Governor-General, on 11 November (Lavelle 2003, 100–106). This marked the beginning of an eight-year stretch in Opposition for the ALP.[1]

In the ensuing period before its return to government in 1983 under Bob Hawke, Labor leaders concluded that the Whitlam government had contributed to the country's economic problems by trying to implement its reforms too quickly. This experience, together with the context of the depressing economic conditions of the 1970s and early 80s, persuaded the party leadership that the capacity for social reform had greatly diminished (see next chapter). By the time Labor came to power in 1983 it had largely ruled out the possibility of social democratic reform. As then-leader Bill Hayden told the party in 1979: 'The economic and political climate that incubated the Whitlam years of reform have [sic] simply gone' (ALP 1979, 349). His successor as leader Bob Hawke offered 'no miracles' (cited in Maddox 1989, 84).

Between 1983–1996, under the leadership of Hawke and his successor Paul Keating (1991–1996), Labor implemented many policies along 'economic rationalist' (or neo-liberal) lines.[2] Labor's neo-liberal policy record included freer trade, the floating of the dollar, the privatization of, among others, Qantas and Commonwealth Bank, fiscal austerity, a liberalization of foreign investment regulations, and tax reductions for business and the wealthy. In welfare, Labor had progressively toughened access requirements, abolishing the unemployment benefit for under-18s and employing 'hit squads' of fraud inspectors to harass people on long-term benefits (Bramble and Kuhn 1999, 37). Even the so-called Prices and Incomes Accord negotiated between the unions and the Hawke and Keating governments was largely about wage restraint (see Lavelle 2003, chapter 7). Many of these policies were naturally seen as a betrayal of Labor's *raison d'etre*: among the results were a real wage cut for many workers, rising inequality, longer working hours, and higher unemployment (Carman and Rogers 1999, 1). Meanwhile, the profit share of national income rose (Bramble and Kuhn 1999). The 'light on the hill', promising greater living standards to the masses, was extinguished, and is unlikely ever to be rekindled.

Former NSW Labor politician Rodney Cavalier (1997, 30) put the former conservative Liberal Party Prime Minister Robert Menzies to the left of both Hawke and Keating in terms of supporting the welfare state, public ownership,

1 The Governor-General usually plays the role of a mere figurehead, but the position retains considerable powers under the federal constitution enacted when Australia became a federation in 1901 (Singleton et al. 2003, 31–35). For a radical analysis of the events surrounding the Dismissal, see O'Lincoln (1993). At the ensuing federal election in December 1975, the ALP received possibly its worst defeat in history, losing 30 of its 66 seats in the House of Representatives.

2 While the term 'economic rationalism' is usually used in Australian circles, it is largely interchangeable with neo-liberalism.

progressive taxation, public spending to achieve full employment, and pump-priming to stimulate the economy. According to Paul Keating's biographer Don Watson, none of the former Prime Minister's predecessors was 'more passionately pro-capital' (2002, 14). Keating himself commented that he and Hawke arrived in office 'with a greater belief in markets than our conservative counterparts' (Keating 1999). Retiring federal Labor MP John Langmore decried the 'dominance of market fundamentalism … and the influence this has had on some of my colleagues' (House of Representatives Hansard (HRH) 5 December 1996, 7879). One Labor minister in the Hawke and Keating governments regretted the 'unnecessary sacrifice of social democratic values in pursuit of economic modernity', as the Hawke Government oversaw 'one of the meaner social welfare states in the industrialised world' (cited in Day 2003, 405).

The Hawke and Keating governments were not the first Labor governments to be branded traitors. The Scullin Labor Government in response to the Great Depression oversaw major cuts to wages and pensions, leading to a split in the party (Denning 1982). Even the iconic Chifley government lost power in 1949 after deploying soldiers to break a strike by coal-miners (McMullin 2000, 264, 265). As Turner (1979, 76) argues, 'contradictions and conflicts of loyalty … have proved endemic to Labor governments in Australia'.

To see only continuity, however, would be to ignore the important shift from the 1970s onwards. The Whitlam government came to power with plans for reform, only to backpedal in response to the recession (see below). The ALP had no such plans prior to taking power in 1983, and nor have current party leaders. As former ALP leader Mark Latham himself wrote in 2005:

> I no longer regard Labor as a viable force for social justice in this country. Its massive cultural and structural problems are insoluble. While the Labor machine is still capable of winning elections, it will not deliver on its original purpose for a fair society …
>
> The problem of social democratic reform in Australia has become insoluble (Latham 2005, 5, 8).

A timeless analysis that emphasizes the commonalities in all Labor governments cannot hope to explain this sense of crisis and its consequences, such as leakages of support to the Greens (see next chapter). Party historian Ross McMullin (1991, 411) argues that, while every Labor government has been subjected to criticism by party supporters, the 'Hawke government generated more grass-roots dissatisfaction than any of the governments'.

There was no return to social democratic policies after the ALP was defeated in 1996. In 1998, new party leader Kim Beazley promised a business audience balanced budgets during Labor's next term of government. He pledged neither 'large public sectors' nor 'high-handed centralism', and he scoffed at suggestions that Labor stood for 'some antipodean version of the Supreme Soviet'; rather, the ALP offered 'parsimonious social democracy' (Beazley 1998). In line with this, then-Shadow Treasurer Simon Crean made it clear in 2000 that Labor's commitments to health and education spending were subordinate to balanced budgets

(Skotnicki 2000, 75). Raising taxes on business and the wealthy to fund such spending was *a priori* precluded.

Despite noting the disturbing levels of inequality and poverty that have developed in Australia's market economy (see below), Labor's Shadow Treasurer Wayne Swan (2005) insisted that 'the market is the best engine room there is for generating wealth for all to enjoy'. He also endorsed former Labor leader Paul Keating's claim that governments should be 'steering the boat, not rowing it'. His solutions largely amounted to improving economic growth, and supply-side measures such as investing in education and making reforms to the welfare and tax systems (though proposals to raise tax on the wealthy were not considered). The only notable social democratic measures proposed were industrial relations reforms and 'more public housing'. In the case of the former, such reforms were mere reversals of *some* of the labour market deregulation undertaken by the John Howard-led Liberal-National conservative government. In the case of the latter, there were no real detail or figures provided (Swan 2005, ix, x, xiii, 175–221, 237–240).

The only notable change in direction in Opposition occurred under the leadership of Mark Latham, who defeated Kim Beazley in a leadership battle in 2003.[3] Latham flirted with a more populist style of politics, but this rhetoric was accompanied by a largely neo-liberal economic approach consistent with his record as an advocate of free market economics and Blair's Third Way (Lavelle 2004a). Latham's defeat at the 2004 federal election eventually brought Beazley back to the leadership in 2005.

## Labor Under Rudd: A New Direction?

Elected leader in December 2006 after consistently poor polling results for Beazley, Kevin Rudd accelerated the push to make the ALP pro-business. Political journalist Paul Kelly (2007, 21) describes Rudd as 'a right-wing Queenslander who is a Christian, married to a successful businesswoman, a conservative on social issues, a realist on global security and possessed by the conviction that Labor must run a successful economy'. Rudd was pro-globalization, despite his conviction that it greatly circumscribed policy options (see below). Following the ALP's 2001 federal election defeat, he called for the invention of 'New Labor', which would involve an appeal to the 'new centre of Australian politics', and a scrapping of the Socialist Objective (Rudd 2001, 75).

The ALP under Rudd, according to Prasser, 'takes its policy cues from the conservative framework … Australia is on a one-way street of more deregulation, market-based reforms, greater global integration and less welfarism' (Prasser 2007, 14). While Prasser mistakenly attributes this consensus largely to ideas and electoral pressures, his characterization of the political state of affairs is correct. To the extent that it plans to do anything about tax, Rudd claims that 'Labor's efforts in this area will concentrate on removing barriers to investment and global economic management, boosting workforce participation, and rewarding skill formation'.

3 Simon Crean was elected leader after Beazley lost the 2001 election, but his consistently poor opinion poll ratings forced him to resign. Beazley was then re-elected leader unopposed, before in turn losing a leadership contest to Latham in 2003.

Rudd boasted of the party's deregulatory credentials from the 1980s. Furthermore, the ALP planned to establish 'a Council of Business Advisers to operate as an ongoing source of business consultation and advice' (Rudd 2007, 11, 12). Labor did promise to reverse elements of the Coalition's radical industrial relations legislation, known as *WorkChoices*.[4] But, as is shown below, its policy is fundamentally pro-business and was designed in the context of growing distance between the political and industrial wings of the party.

## The ALP-Union Relationship: A Key Plank of Social Democracy Removed

As we saw earlier, a key feature of social democracy is its special relationship with the union movement. While the unions remain central to the party organizationally, the distance politically between the two has grown to the point where unions will be expected to lobby a Labor government for favours just like any other interest group. In contrast, greater efforts were being made to foster stronger ties with business (see above).

These trends can be traced to the period of the Whitlam government. In response to the economic downturn, Labor attempted to placate business and restrain unions from seeking wage rises (O'Lincoln 1993, chapters 2 and 3). In Opposition, relations cooled as Labor's policy approach entailed 'sacrifices' from workers, leading to a policy Accord aimed at restraining wages (see Lavelle 2003, chapter 7). The possibility that unions might represent an obstacle to lower wages prompted some senior ALP figures in the 1980s to consider a divorce with the industrial wing (Kelly 1984, 69). This is consistent with the argument made earlier that unions represented a speed-bump on the road to neo-liberalism, and this largely explains the rocky relations in office in the 1980s and 90s – characterized by some unions initiating disaffiliation proceedings – when Labor adopted policies antithetical to workers' interests (see above).

In Opposition after 1996, a clear attempt was made to develop a more arms'-length relationship with Labor's industrial wing (see Lavelle 2003, 192, 193). Some unions made threats to disaffiliate, or at least hinted at discontinuing its support for the party over disillusionment with its direction (Hannan 1997, 4; Long 1997, 10). In 2000, Treasury spokesperson Simon Crean implied that a Labor government would relate to the unions in the same way as they would relate to business: 'We will have differences but we will argue them out in the same way we will have a dialogue with the business community' (Walker and Lewis 2000, 38). Elsewhere he claimed that 'we are as comfortable in the boardroom as we are on the shopfloor' (Crean 1999, 97). Haydon Manning (2002, 241) argued that a 'separation' rather than a 'divorce' seemed likely.

More recently, Rudd added further weight to the perception that unions hold no special place in Labor's plans. He argued that Labor represented 'all working

4 Implemented in 2005, among other things *WorkChoices* removed unfair dismissal rights for workers in firms with less 100 employees, gave employers increased powers to force workers onto individual contracts, and reduced minimum employment conditions (Hall 2006).

families', not just unionized ones: 'When it comes to the future their input, together with the business community's input is valued' (cited in Shanahan 2007, 20). Rudd claimed that Labor was not obliged to help stem declining rates of unionization, and he insisted that unions would have to compete in the market for survival like everybody else (Megalogenis 2007, 1). Frontbencher Craig Emerson effectively argued that class was a thing of the past, and that Labor represented all people in the labour market, whether they were trade unionists, independent contractors or small business owners: 'They are all workers, they all create wealth, they all take risks, they all deserve reward for effort' (Franklin 2006, 7).

The ALP's industrial relations policy leading up to the 2007 federal election also reflected this absence of any special relationship with unions. While the policy of reversing some of the Coalition's *WorkChoices* policies was unpopular with business – who wanted the policy kept in its entirety – it was clear that Labor's policy was highly decentralized and pro-business. The modest nature of it led some union leaders and the Greens to dub the policy '*WorkChoices* lite' (see next chapter). A key part of the plan, to scrap individual contracts known as Australian Workplace Agreements (AWAs), was modified so that they would remain in place for five years. As one official of the Textile, Clothing and Footwear Union (TCFU) wrote to Rudd and deputy leader Julia Gillard:

> Dear Kevin and Julia, don't you get it? I represent some of the lowest-paid workers in the country. They sweat in backyard garages, shopfronts and factories to make the clothes on your back … Last week we received two calls from women workers in tears because they were being forced to give up their rights by signing an AWA in order to keep their job … The same AWAs which you will now leave in place for five years (cited in Bachelard 2007).

Gillard argues that under a Rudd Labor government workers would achieve wage rises above the minimum wage by only two means: through individual or collective negotiations with their employer, and in the case of the latter only if the business 'has become more productive and profitable will there be gains for employees to share'. Moreover, the system 'will be better for business' (Gillard 2007, 12). Rudd, speaking on the policy, argued that: 'Labor is fundamentally pro-business. We want to get the regulator off business's back' (*ABC News Radio*, 18 April 2007).

In political and policy terms, the unions have become just another interest group vying for influence over government policy. While Labor politicians have long stressed their desire to rule on behalf of the 'nation' rather than organized labour (see Nairn 1973, 17), and while relations have been strained before, the political context is one in which unions or their leaders have taken unprecedented steps towards supporting the Greens (see next chapter). Moreover, the economic context no longer allows for a social democratic policy approach that might hope to restore relations.

## Bipartisanship on Economic Rationalism

Many commentators argue that there is bipartisanship between Australia's major parties on economic rationalism (e.g. Marsh 2006, 125–127). Former Reserve Bank

Governor Ian Macfarlane argued in 2006 that 'the macro-economic policy proposals of the two major parties are almost identical' (cited in Rudd 2007, 6). Pusey's (2003, 142) research found that 60 percent of those surveyed agree that 'it doesn't matter which party is in power, in the end things stay much the same'. In their post-2001 election review of the ALP,[5] Bob Hawke and former NSW Premier Neville Wran (2002, 8) wrote that '[a] perceived lack of policy differentiation from our conservative opponents is next on the list of concerns [amongst members]' after factionalism and a lack of input into the election of parliamentary representatives. While Goot denies that there has been convergence, data he cites show that the number of voters who saw a 'good deal of differences' between the parties fell consistently: 43 percent in 1993, 30 percent in 1996, 29 percent in 1998, and 24 percent in 2001 (Goot 2004, 65). The perception of convergence is related to the rise of the Greens (see next chapter).

Labor politicians themselves concede either that convergence has occurred, or that there are public perceptions of it. Simon Crean acknowledged that at the time of the 1996 election loss, 'we had a bipartisan approach on just about every policy issue, quite frankly' (Field and Lewis 1996, 4). In 2000, Beazley stated that the major parties 'all now largely agree on … the need for fiscal discipline, an independent monetary policy, deregulation of financial markets, the floating of the dollar, low inflation and a more open economy' (cited in Clark 2003, 58, 59). Kevin Rudd (2007, 5) agrees that there is 'now a broad consensus about the best goals and instruments of macroeconomic policy'. Labor MP Kate Lundy (2005) claims that a perception of policy convergence 'does exist because I get a lot of feedback to that effect'. Julia Gillard (2005), while insisting that key differences remain, accepts that there has been 'political convergence on economic matters'. This is an important concession, since for social democracy economic issues are of central importance.

As is the case elsewhere, it is not the first time that the parties have been seen as similar in approach. During the post-war boom, there was an apparent consensus around Keynesian style economic management (Marsh 2006, 121). This consensus was, however, more amenable to traditional social democratic politics because it did not require Labor to choose between mainstream economics and intervening in the economy to raise living standards (Strangio 2002, 39). In contrast, the consensus on neo-liberalism is much more antithetical to social democracy.

Numerous Labor MPs (e.g. Faulkner 2005; Lundy 2005) argue that the gap between the parties widened – and was seen by voters to have widened – under the leadership of Mark Latham. Even if this is the case – as was argued above, Latham kept to a neo-liberal economic programme – under new leader Kevin Rudd the party has distanced itself further from unions and promised an economically conservative approach largely indistinguishable from that of the Howard government.

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5 A review announced by the party's new leader Simon Crean following the November 2001 Federal Election aimed at assessing the party's organization, structures and internal processes.

## Labor and Economic Rationalism – Explanations

Having reviewed the neo-liberal policy trends in Labor, we now turn to explanations for these. Chief among the explanations put forward have been: the increased support for neo-liberal ideology, electoral pressures, the impact of globalization, and the fallout from the collapse of the post-war boom. I argue that only the last explanation can account for the sudden retreat from social democratic reforms by Labor in government in 1974–1975.

### *Ideological Shifts*

A common explanation for Labor's neo-liberal policy record is the increased support since the mid-1970s for neo-liberal theory, which is sometimes related to the efforts of think-tanks promoting free market economics (Pusey 1991; Jaensch 1996, 153; Carroll and Manne 1992, 1; Stretton 1992, 163; Kelly 1992, 19; Kerr 2001, 62, 63). In the late-1970s, the ideas of a grouping called the New Right (including, *inter alia*, free-market enthusiasts and libertarian political thinkers) did become increasingly influential in Australia (Sawer 1982).

Modern social democrats are not mere technocrats focused on power, but in fact do hold ideas that influence their behaviour. Witness Keating's comment (cited above) that he was more 'pro-market' than his conservative predecessors. As we noted in Chapter 2, events such as the end of the post-war boom and the collapse of the Eastern Bloc laid the basis for the triumph of free market values. Former leader Mark Latham (2003, 12) conceded that since 'the fall of the Berlin Wall we've had trouble redefining ourselves'. Labor MP Kelvin Thomson recalled that this 'had an impact on us … because if you don't stand for a socialist objective, what do you stand for … some of the intellectual underpinning foundation that we have seemed to suffer a bit after the fall of the Berlin Wall' (Thomson 2005). Deputy leader Julia Gillard argues that after the demise of the Soviet Union there was an 'acceptance that you know, market based economies were the most efficient system'. This presented a challenge 'for social democratic parties in defining what it is that their serious philosophies mean in that new context' (Gillard 2005).

The ideological consensus on the free market since the end of the Cold War is therefore one reason why the ALP now finds it difficult to explain what distinguishes them from their conservative counterparts. As a social democratic party for which national economic intervention was regarded as essential, the discrediting of Keynesianism (see below) and events in Eastern Europe rocked the ALP's ideological foundations.

Notwithstanding the greater influence of neo-liberal ideas, this is not satisfying as an overall explanation, since it raises the question as to why such ideas came to have influence when they did. As we saw earlier, it was the collapse of the post-war boom that created the context – falling growth, profits and rates of accumulation – in which neo-liberal ideas represented a panacea. The end of the Cold War, therefore, gave further momentum to a policy shift whose roots originated in the 1970s. More importantly, ideological trends cannot account for the dramatic shift in policy approach while Labor was in government in the 1970s.

*Globalization*

Some commentators have attributed Labor's abandonment of traditional democratic policies to the effects of economic globalization (McMahon 2002, 22; Kelly 1999; Goldfinch 1999, 3; Easton and Gerritsen 1996, 23). Labor politicians themselves have interpreted events in this way. Duncan Kerr, for instance, argues that 'many choices that used to be open to national governments are, because of the forces of global capital, no longer realistically available'. In 'large areas … national legislators can be little more than mere spectators' (2001, 6, viii). Kelvin Thomson argues that Australia cannot 'cannot construct an economy which is separate from that of the rest of the world, or it could but it would have the living standards of Cuba'. Globalization means that social democratic governments can no longer fix exchange rates, raise tariffs or foreign ownership limits, and 'all sorts of economic restrictions and regulations' are unviable (Thomson 2005). Kevin Rudd argued that 'the volume and volatility of global capital imposes unprecedented constraints on what reformist governments can do'. In spite of this, Labor was embracing globalization 'with gusto' (Rudd 2000a, 15; 2000b, 40).

Globalization is also assumed to be inevitable, and therefore beyond government control. Harry Quick (2005) argues that globalization is a 'fait accompli'. Similarly, Kelvin Thomson (2005) regards globalization as 'inevitable'. According to Gillard (2005), Labor did not 'have any common cause with the anti-globalization movement' because there is nothing that can be done to withdraw 'from the process of globalization and I don't think anything … should be done'.

These attitudes notwithstanding, globalization is not the main driver of Labor's shift to neo-liberal policies. One reason for this is that, as we saw earlier, certain neo-liberal policies themselves in large part facilitated globalization, and this was just as true in Australia in the cases of the floating of the dollar, freer trade, and the liberalization of foreign investment regulations. Other assumptions underpinning much of ALP commentary on globalization are open to question (see Chapter 3). As we shall see, globalization also cannot explain the abruptness of Labor's retreat from reformist policies in 1974–1975 amid international recession.

*Electoral Motivations*

In addition to ideological developments and globalization, electoral pressures are commonly thought to have driven Labor's embrace of market-friendly policies (Battin 1992; Kelly 1992, 20; Hollier 2003, 421). As is the case elsewhere, the explanation is often based on the seemingly incontestable socio-economic trend of a declining manual working class, or the embourgeoisment of society (Jaensch 1989, 60–64). Stewart (2002, 72) simply argues that 'social democratic and Labor parties had to espouse the cause of smaller government if they wished to win or retain office'. There is also evidence that Labor politicians in the 1970s and 80s sought to occupy the 'centre' or 'middle' ground of politics (see Lavelle 2003, 131, 132).

This argument does not, however, provide a satisfying explanation. There is little evidence of a change in public attitudes to 'big government' in Australia that would justify the abandonment of social democratic policies. The electoral argument would be more persuasive if the departure from traditional policies occurred in response to

the successive federal electoral defeats suffered by Labor in 1975, 1977 and 1980. But in fact it took place suddenly in government. Also, despite clear evidence that its neo-liberal policies have been electorally costly – most notably at the 1996 federal election (see next chapter) – Labor has not changed policy tack. Finally, an analysis of the levels of income and affluence among the Australian population shows that there 'remains a strong electoral base for redistributive politics' (Burgmann 2004, 64).

*The Collapse of the Post-War Boom in Australia*

A more compelling explanation for Labor's adoption of neo-liberal policies lies in the effects of the end of the post-war boom, on whose economic strength the party's plans for reform leading up to the 1970s had been based. In achieving its most impressive reforms during the post-war years, the ALP conforms to the international social democratic pattern. The reformist record of the government of Ben Chifley (1945–1949) allotted him a 'hallowed place' in party history (McMullin 2000, 248). According to a biographer of Chifley, his government embarked on 'the most considerable programme of legislative and executive measures for nationalisation and public enterprise in the Commonwealth's history'. The government also engaged in greater 'general intervention and planning in economic and social affairs', with its policies geared towards full employment, better workplace conditions, and an improvement in the 'equalisation of wealth, income and opportunity' (Crisp 1978, 289, 290). This period saw the creation of the Commonwealth Employment service, unprecedented government involvement in education, and the establishment of free hospital ward treatment (McMullin 2000, 259).

Like most advanced nations, Australia experienced consistently high economic growth during the long boom (Bolton 1970, 283). The strength of the economy impacted significantly on the thinking of key Labor politicians. Whitlam, for instance, believed that the prosperity associated with the boom obviated the necessity for nationalization, while left-winger and future deputy leader Jim Cairns saw the gains enjoyed by workers as invalidating Marxist analyses of Australian society (Strangio 1999, 42; Strangio 2002, 102). While Labor languished in Opposition for most of the this period (1949–1972), when it returned to power in 1972 after 23 years in Opposition, it implemented significant reforms on the back of the strength of the post-war economy. Central to the 'Programme' advocated by then-leader Gough Whitlam was heavy federal public spending on areas such as health, education, the arts, urban and regional development, and resources for disadvantaged groups (see Edwards 1976). Even Marxist critics noted the frenetic pace with which the government implemented its reforms, with some 40 important decisions made in just the first 13 days in office. From 1973, the government ramped up public spending 'first raising pensions in line with plans to peg them at 25 percent of average weekly earnings. The 1973 budget doubled spending on education, tripled outlays on urban development, quadrupled spending on housing' (O'Lincoln 1993, 132). Free tertiary education was introduced. Compared to the disappointing results of Labor in power in the 1980s and 90s, the Whitlam government seems to shine like a beacon (see Hocking and Lewis 2003).

When the boom officially ended in 1974 (Strangio 2002, 285), the reform plans were dropped. Australia in 1974–1975 suffered declining growth, high inflation, and

rising unemployment (Dyster and Meredith 1990, 221; Brezniak and Collins 1977). The slump brought an end to almost three decades of full employment: between mid-1974 and early 1975 unemployment rose from 1.5 to 4 percent (Willis 1980, 89; Boehm 1979, 30). The dramatic deterioration in Australian economic conditions from 1974 onwards is shown in Tables 5.1 and 5.2 below.

**Table 5.1 Australia's economic performance, pre- and post-1974 (percent)**

| | pre-1974[1] | 1974–83 |
|---|---|---|
| GDP | 5.2 | 1.8 |
| Inflation | 3.3[2] | 11.4 |
| Unemployment | 1.3[3] | 5.6 |

*Source:* Bell (1997, 88).

Note: [1] Annual average, calculated from 1960; [2] Consumer Price Index (CPI) calculated from 1953; [3] Calculated from 1953.

**Table 5.2 Australian economic performance, 1960s–1990s (annual average percent)**

| Australia | 1960s | 1970s | 1980s | 1990s |
|---|---|---|---|---|
| Real GDP Growth | 5.3 | 3.5 | 3.3 | 3.5 |
| Unemployment | 2.2 | 4.2 | 7.6 | 8.9 |
| Inflation (quarterly) | 2.5 | 10.1 | 8.3/8.1[4] | 2.3/2.8[5] |

*Source:* (Gruen and Stevens 2000, 3).

Note: [4] Excluding interest; [5] Excluding interest.

The political impact of the onset of stagnation is hard to overstate. The only real glimpse of neo-liberalism thus far had been the unilateral 25 percent tariff cut in 1973, which according to Whitlam was an attempt to stem rising inflation and make Australian industry more efficient (Whitlam 1985, 192). The first major signs of a change in direction were evident in December 1974 when the government reacted to the economic crisis by deferring a $500 million company tax payment involving around 64,000 companies, and by doubling the tax deduction for the depreciation of plant and equipment (Kelly 1976, 77). In January 1975, the government retreated further over the introduction of a capital gains tax (CGT) and new taxes on company cars (*The Age* 30 January 1975, 4). The government also established an Expenditure Review Committee prejudiced against any further public spending increases (Wood 1975, 9).

These decisions did not yet amount to the systematic neo-liberal approach evident in the 1980s and 90s. It may be apt to consider this as an example of what Fielding (2003, 71) refers to as a 'transitional' period. The above decisions nonetheless constituted, according to Kelly (1976, 59), 'the most dramatic reversal in economic policy in the shortest possible time'. Another press commentator remarked at the time: 'The Government of reform has been transformed into a Government of laissez faire' (McDougall 1975, 1). Strangio refers to a developing government consensus that 'market discipline, in the form of a rise in unemployment, was the only way to check Australia's inflationary spiral' (Strangio 2003, 363, 364).

The 1975 national ALP conference[6] also reflected, according to Ormonde (1981, 200), 'an historic change in Labor philosophy'. In his address to conference, Whitlam spoke of the 'special difficulties [the recession created] for a democratic socialist party … [W]e find ourselves now in a position of seeking ways of restoring profitability' (cited in *Rydge*'s 1975, 35). A motion to strengthen the public sector was defeated in favour of a resolution emphasizing the restoration of private sector profits (Bowers 1975, 6; *The Age* 6 February 1975, 5). Journalist Robert Haupt at the conference commented on how 'depleted is the Party's drive towards fundamental social reform in Australia'. The ALP, he suggested, was 'less willing to interfere with the existing distribution of power in Australian society' than at any time in the previous decade (Haupt 1975, 1).

A more significant indicator of Labor's shift in office was the 1975–1976 budget, which brought to an end Labor's 'expansionist phase' and aimed to cut spending and curb inflation (Whitwell 1986, 216; Davidson 1975, 9). For Strangio (2003, 364), it 'heralded the arrival in Australia of neo-liberal economic government'. In delivering the budget, Treasurer Bill Hayden stated that its emphasis was on 'consolidation and restraint rather than further expansion of the public sector', and it was premised on the notion that inflation was 'the nation's most menacing enemy':

> We are no longer operating in that simple Keynesian world in which some reduction in unemployment could, apparently, always be purchased at the cost of some more inflation. Today, it is inflation itself which is *the central policy problem*. More inflation simply leads to more unemployment (HRH 19 August 1975, 53; italics added).

This obituary for Keynesianism was, of course, strikingly similar to that delivered by British Labour Prime Minister James Callaghan in 1976 (see Chapter 7). The discrediting of Keynesianism had major implications for the ALP: its orthodoxy had allowed Labor to avoid having to choose between mainstream economics and state intervention to raise living standards (Strangio 2002, 39). Where interventionist policies seemed to garner widespread support in the 1950s and 60s, business opposition to the Whitlam government's policies grew significantly. The recession saw discontent gather so that by 1975 business had 'declared war' on Labor (Connell 1977, 118; Strangio 2002, 273; Ghosh 1980, 230). This, again, revealed the way in which social democratic policies were now regarded as antithetical to business interests.

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6 In theory the party's most sovereign decision-making body but whose decisions in practice are often ignored by the party leadership.

A change in policy direction was required. It was clear from the statements of key Labor spokespersons that the party recognized the unsuitability of Keynesian style policies to these 'new circumstances'. Whitlam argued in 1976 that 'old-fashioned remedies would not work as they had once done', and that the 'current economic problems are of a peculiarly novel and stubborn kind' (Whitlam 1976, 4, 5). Labor MP Ralph Willis declared that 'the ability of governments to influence economic behaviour by traditional economic tools of budgetary and monetary policies is growing weaker and weaker' (HRH 14 October 1982, 2046). Apparently influenced by the work of James O'Connor (1973), Willis's colleague Brian Howe attributed the economic crises in the 1970s to a 'fiscal crisis of the state', which overloaded governments with fiscal 'burdens that it cannot possibly bear' (cited in ALP 1981, 66). It logically followed from this that government ought to reduce some of these 'burdens'. Furthermore, if Labor believed that governments' ability to solve the crisis had weakened, it would be tempted to look to market-based solutions.

In hindsight, it seems that Labor's initial response in government to the recession was a precursor to the party's eventual neo-liberal evolution. The sense was that reformist social democratic ambitions belonged to a bygone era. In his speech to the 1977 national ALP conference, Whitlam insisted that the party's reforms would have to wait for an improvement in the economic climate:

> The growth economy in the fities [sic] and sixties was both the *means and the justification* by which Labor could go to the electorate with promises of social reform through an expanded public sector … The economy in the seventies is a different story... We have to moderate our social goals both for the sake of the economy and for the sake of the programs themselves … And the challenge for this Conference is to frame and adapt our policies to meet *a new set of economic conditions*, a whole *new set of constraints* … (Whitlam 1977b, 7, 8; emphasis added).

This contrasted with the optimism displayed by Whitlam in 1972 when he refused 'for a moment [to] believe that we should set limits on what we can achieve, together, for our country, our people, our future' (cited in *The Age* 1975, 7). As Whitlam's speechwriter Graham Freudenberg (1977, 222, 223) recalled, in 1972 there was 'no sense at all of any deep sickness, in either the Australian economy or world capitalism'. According to Whitlam, Labor's aim was 'to finance our new programs from growth. But world-wide inflation and recession frustrated this objective' (Whitlam 1977a, 204). Whitlam argued in 1978 that reforms such as free tertiary education could not have been undertaken in the changed economic circumstances (Whitlam 1978, 28). By implication, such reforms may have to be wound back, which is eventually what happened (see below). One ALP delegate to the party's 1981 national conference complained that the economic crisis 'undermined the whole basis of the sort of broad reform programme that the Labor Party has so frequently attempted to advocate in the past … ' (Robinson, cited in ALP 1981, 16).

Whitlam's conclusion that Labor would need henceforth to moderate its objectives because of the changed economic circumstances was shared by his successor as leader in 1977, Bill Hayden, who warned the 1979 ALP national conference that 'now is not the time for the visionary reform programmes of earlier years' (cited in ALP 1979, 350, 351). Reform had to be financed 'through increased revenue, or

[you] limit yourself to what economic growth will allow for … [which would be] small in the years of the near future' (cited in McGregor 1979, 7).

*Then and Now*

It would be wrong to deny altogether the role of factors other than economic growth in Labor's embrace of neo-liberalism. Only the collapse of the post-war boom, however, provides an ultimate explanation for Labor's sudden policy shift in 1974–1975.

Arguably, the failure of the Australian and world economies to regain their post-war health underlies the ALP's continued commitment to a neo-liberal programme. Although the Australian economy has performed relatively well in recent years, there can be no comparison with the prosperity of the post-war period. In the 1990s, Australia's average economic growth rate was slightly better than the 1980s, about the same as during the recessionary 1970s, but much lower than the 1960s (see Table 5.2). In the first six years of the new century, according to Rudd himself, the Australian economy grew on average just less than 3 percent, 'making it the worst decade for economic growth since the 1930s' (Rudd 2007, 4).

Yet, the failure to return to the buoyancy of the post-war era is evident not just in raw growth figures. For instance, Bramble argues that the picture of a 'miracle' economy ignores evidence of rising labour exploitation since the 1980s, including greater casualization of work, outsourcing, longer working hours, underemployment, and increased use of temporary work arrangements. The picture is also one of greater inequality, rising consumer debt, and skyrocketing executive remunerations (Bramble 2004, 11–13). While the rate of profit in Australia has risen during the current boom – though to a level still less than its mid-1960s peak – this was based on a 'war by capital on the working class and its labour market institutions' (Mohun 2003, 102, 103). If the rate of profit can be increased only by increased exploitation of workers, then this is of no purchase to a party of 'labour'. A study by the Australian Council of Social Services (ACOSS) found that the proportion of Australians living below the poverty line had risen from 7.6 percent in 1994 to 9.9 percent in 2004, affecting close to two million people (cited in Mitchell 2007, 5). In addition, 800,000 children live in households with no parent in work; Indigenous Australians suffer appallingly low living standards and quality of health; between 1995–2002, the poorest saw their income rise by 1.6 percent, the middle group by 6.9 percent, and the wealthiest by 26.3 percent; and 10 percent of the population own 50 percent of the wealth while the bottom 50 percent of the population own less than 10 percent (cited in Swan 2005, 4, 5). The figure of 4.2 percent official unemployment achieved in May 2007 was as low as that witnessed in 1975, but the level of underemployment – the proportion of people who want more work but cannot get it – was three times higher (Wynhausen 2007, 22). The argument that widespread affluence in Australia killed social democracy (Hamilton 2006) not only ignores the impact of the downturn in the 1970s (see above), but also this entrenched disadvantage and inequality, the *raison d'etre* of social democracy.

Today's boom is not built on firm foundations. Certain characteristics of the boom – such as the high reliance on consumer spending and housing construction,

which in turn is based on heavy debt levels – sow the seeds for future potentially devastating economic upheavals (Bramble 2004, 15–17). This, together with the broader global economic weakness, explains why social democrats in a period of seemingly high economic growth have not promised a return to the social programmes of the past. Witness Rudd's claim in 2007 that free tertiary education is ideal, but would be economically irresponsible to introduce.[7] The phrase, 'reformism without reforms', remains apt.

7 After the Whitlam government introduced free education (see above), the Hawke Labor government in the late-1980s re-introduced the policy of student payment for university study.

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Chapter 6

# Political Consequences: A Green Alternative to Social Democracy?

**Electoral Setbacks**

Perpetual 'modernization' of the Australian and British labour parties, according to Scott (2000, 253, 254), has often led to a 'damaging backlash after periods in government'. While Labor had earlier lost some of its traditional supporters to other parties during its reign in office since 1983 (see below), division among its political opponents, among other things, meant that the unpopularity of some of its policies had not up to this point cost it power. The 1996 election defeat, however, was a 'backlash', with Labor's primary vote falling to its lowest level (38.75 percent) since 1931 (Ramsey 1996, 37).

Research revealed Labor's loss of support amongst its traditional working class voters to be a key factor in the defeat, and there is empirical evidence that this loss of support resulted from Labor's implementation of neo-liberal policies (Singleton, Martyn and Ward 1998; Bean 2000a, 76). Some 600,000 voters, 'people who all their lives voted Labor', according to then-National ALP Secretary Gary Gray, deserted Labor in 1996 (*ABC Four Corners* 24 February 1997). The Liberal Party's campaign director Andrew Robb pointed to internal party polling indicating the Coalition's attraction of 47.5 percent of the votes of manual workers, compared to Labor's 39 percent (cited in Jones 1997, 1). Robb's assertions were supported by research in Queensland indicating that the party suffered significant declines in support among manual workers and low income white-collar workers. This, it was concluded, may be the 'root cause of Labor's failure in 1996' (Singleton, Martyn and Ward 1998, 4, 5, 8). Similarly, Bean's (2000a, 76) research showed that 'middle class, party allegiances did not shift between 1993 and 1996. What did happen was that Labor suffered a major slump of 15 percentage points in support from its traditional base'.

This evidence is supported by ALP commentary and analysis of the defeat. Party leader Kim Beazley conceded that Labor's core constituency had deserted it because it was 'blue-collar workers and their families … who have carried the burden of technological and economic change in society over the last decade' (cited in Gordon and Taylor 1996, 1). Gary Gray admitted that Labor went 'too far' on privatization, cuts to government spending, and labour market deregulation (*ABC Four Corners* 24 February 1997). Labor MP Robert McClelland attributed 'a lot of the blue-collar assault on the Labor Party' to the 'perception that every time they wanted a wage increase they had to sweat blood for it' (HRH 21 November 1996, 7231). According to McClelland's parliamentary colleague Carmen Lawrence (2005), the government's policies were 'seen as pure poison by a lot of our supporters … They were the ones

who left us in '96'. Similarly, a NSW ALP report attributed the election defeat to the government's commitment to free-markets, and called for a return to the ALP's role as a 'champion of working Australians' rather than a vehicle for the channelling of wealth to 'profits and high-flyers' (cited in Nason 1996, 4). Thus Labor's defeat was not the product of socio-economic trends such as the decline of the industrial working class. Indeed, in this case, lost support within this class was the problem.

In this context, the election of the even more neo-liberal conservative Howard government might seem odd. Yet, the Liberal Party had shrewdly reversed many of its more hard right-wing policies in the lead up to the 1996 election (Watson 2002, 623). The election result in any case represented far more a rejection of Labor than any real enthusiasm for the alternative (see Bean, Simms, Bennett and Warhurst 1997). Between then and the 1998 federal election, Labor adopted some anti-free market rhetoric, which coincided with public discontent towards cutbacks made by the Coalition in its first year in power (see Lavelle 2003, 190–192). Together with government plans for an unpopular consumption tax, these factors meant that Labor was able to secure more votes than the Coalition just two years later at the 1998 federal election, losing only because its votes were not spread across enough seats to form government.

This did not mark a revival for Labor, however, as it improved its lower house primary vote by a meagre 1.3 percent (Mackerras 2000, 213). It also made only 'modest inroads' back into its traditional working class vote (Bean and McAllister 2000, 180). At the following federal election in 2001, Labor's primary vote (37.8 percent) fell to its lowest level since 1906 (Hawke and Wran 2002, 9). While the impact of September 11 and a major scare campaign by the government against asylum-seekers were key factors in this result, Labor's support for the government on these and other critical issues provided little incentive to change government (Quiggin 2001, 62; Brett 2001, 15). Its failure to offer an alternative economic policy meant that those opposed to the government's stance on the 'war on terror' and asylum-seekers were given no material inspiration to vote Labor (Rodan 2002, 15).

At the succeeding 2004 federal election, the ALP lost a further five seats, and its primary vote fell slightly to 37.6 percent. Labor was hurt by the Coalition's interest rate 'scare campaign', which harked back to high interest rates under the ALP in the 1980s and 90s to exploit high levels of mortgage indebtedness. To the extent that this campaign succeeded, it did so in an individualistic, utilitarian climate. Labor helped create this climate because it, too, focused on tax cuts, family payments, and economic management, rather than the war on Iraq, the environment, inequality, or the standard of social services. Labor sang from the same hymn sheet as the Coalition on neo-liberal globalization. In this environment, voters made a judgement about who would deliver the most for them and their family on economic issues.[1] In addition, Scott argued that Labor's policies might have hurt low-income people in safe Labor seats, and the party's policy of protecting old growth forests in Tasmania without any support for the displaced workers contrasted with the Prime Minister's promise to save these workers' jobs. Workers might have remembered, he surmises, Labor's neglect of retrenched manufacturing workers in the 1980s and 90s (Scott

1 This analysis is based on Lavelle (2004b).

2006a, 4). In 2001, Labor's support amongst blue-collar workers rose to 47 percent compared to 39 percent for the Coalition, but fell again to 42 percent at the 2004 election when the Coalition secured 47 percent of this vote – the first time Labor has lost its lead over this section of voters in the twenty years since such data was first produced (Scott 2006a, 1, 3). Furthermore, this decline is often occurring in 'heartland' seats held by Labor for decades (Thompson 2002, 164, 165).

It can therefore be argued that Labor's neo-liberal policy direction led to a backlash in 1996, and has been a factor in its continued electoral woes, in particular its inability to regain the support of its traditional working class constituency. For the purposes of the argument that the ALP has suffered a loss of core support because of its neo-liberal policies, it needs to be noted that for the first time since Australia became a federation in 1901 Labor is in power sub-nationally in all six States and two Territories.[2] Different voting patterns at State and federal levels have long been the subject of debate. In some cases, however, the erosion of Labor's support base at the national level was replicated at State level. For instance, in the case of the West Australian State election in 2001, Labor regained power with a historically low primary vote (37.6 percent), suggesting that the vote was more against the incumbent than for the challenger (Steketee 2001, 13). Former federal ALP leader Mark Latham (2005, 235) has made the point that State Labor is less affected by the loss of party identity, which may have something to do with the increasingly narrow range of policy areas dealt with by the States. These State and Territory governments are often highly presidential, with few hints given of their 'Labor' character (Wanna and Williams 2005, 15). This success at the regional level, therefore, masks the underlying fragility of Labor's base.

While at the time of the writing of this book Labor had a strong chance of returning to power at the national level, it is clear that this has little to do with a resurgence of support for what the ALP stands for. Labor's polling results have improved significantly since Rudd became leader in late-2006, even though its policies have stayed largely the same. Some of the increase in support also has to do with the unpopularity of the Coalition's industrial relations deregulation. Because Labor's support is so superficial it is likely to lose support quickly if it is re-elected and, as is likely, it stays within the neo-liberal paradigm of the previous government.

## Declining Party Membership

As is the case with other social democratic parties, Labor's neo-liberal policy record has contributed to membership losses. ALP party membership has fallen from nearly 300,000 around the time of WWII to just 38,000 in 2003 (Clark 2001, 52; Johns 2006, 47). Former leader Mark Latham argues that in his electorate, there would be 'no more than 50 active members' and only around 7500 'real members' across Australia, 'enough to fill a small suburban soccer ground' (Latham 2005, 7, 8, 398). Cavalier estimates that there could be fewer than 3000 active ALP members in Australia. Some 49 ALP branches closed between 1999–2006 (cited in Donovan 2006, 29).

2 Its victory in 2002 in the South Australian election achieved this historical feat.

Of course, among Australian political parties, declining membership is not peculiar to the ALP (Jaensch 2006, 28, 29). Some Labor MPs maintain that the losses reflect modern consumerism and the new privatized forms of entertainment it offers through the internet and television, which Thomson (2005) suggests is the 'largest culprit'. In addition, Labor MP Duncan Kerr (2005) argues that contemporary political issues are becoming increasingly international, whereas party memberships and meetings are still locally oriented, and thus potentially irrelevant.

There is evidence, however, of a relationship between membership decline and discontent with party policy. For instance, Labor's membership decline in the 1980s after 15 years of membership growth between 1967–1982 was attributable to disenchantment with the economic rationalist policies of the Hawke Government:

> Several official inquiries conducted within the Party show that the membership slump since 1983 [when Labor was elected] has occurred largely because Labor in office has embraced policies which run counter to the Party's platform … In 1988, nearly 40 percent of the ALP rank and file in Victoria who did not wish to renew their membership, and more than 50 per cent of those in Tasmania, indicated that their decision resulted from actions of the Federal government …
>
> The present crisis in morale is quite unprecedented in its extent. After the tragedy of having to wait so long for a sustained period of national government, Labor's supporters now experience the bigger tragedy of feeling unable to really improve society through being in government (Scott 1991, 45).

Federal Labor senator John Faulkner points to wider political trends involving the use of campaign techniques that require less member involvement, but he also argues that 'there are a lot of alienated activists as well. Mainly as a result of the period that we had in federal government between 83 and 96' (Faulkner 2005). When asked if the Hawke and Keating governments had added to the membership losses through the disillusioning aspects of some of their policies, Labor MP Lindsay Tanner (2005) responds: 'I think that's true but I think some of the policies also inspired the rank and file members.' There was little evidence of this inspiration at the 1996 federal election. Singleton, Martyn and Ward surveyed Queensland ALP members who did not renew their membership in the year preceding the election. They found that blue-collar workers were over-represented amongst the ex-members, and that the most common reason (around a third) for leaving the party was that Labor's policies in government 'didn't help workers', with approximately a fifth citing the ALP's abandonment of 'its traditional values' (Singleton, Martyn and Ward 1998, 6, 7).

The simultaneous membership decline of the major parties may reflect common trends, namely their shared embrace of neo-liberalism in the late-1970s and early 1980s (Marsh 2006, 125). In this case, there may seem little point to membership. Braunthal (1994, 353) put forward a similar explanation for simultaneous declining memberships in Germany. The review conducted after the 2001 election reported members calling upon the party and its leaders to give them 'something to believe in' distinct from the Coalition (Hawke and Wran 2002, 8). Moreover, membership decline in Australia is not quite universal. According to Greens adviser Ben Oquist (2005), the party's membership in 2005 was 'booming towards

7,000–8,000'. Any general reluctance of people to join parties was not evident in the case of this political organization.

**Increased Support for Other Political Forces**

As we saw earlier, a backlash by its core constituency in 1996 cost Labor government, in the process handing power back to the Coalition. Labor's abandonment of its social democratic politics and its embrace of neo-liberalism enabled the Coalition to portray itself as the party of the 'battlers' and to secure support from blue-collar workers (Brett, cited in Scott 2004, 4). Arguably a more important consequence of this process has been an increase in support for minor parties.[3] Labor politicians readily admit that they have lost many traditional voters to other parties (SBS *Insight* programme, 2 May 2006). Bean (2000a, 78) notes that at the 1996 election many of the 'semi-skilled and unskilled workers who deserted Labor clearly could not bring themselves to switch directly to the Coalition, so they voted instead for a minor party or an independent'. A 1999 poll found that less than half (47 percent) of voters agreed that the major parties did 'an adequate job of representing the Australian people', while 37 percent indicated that they would like to see another major party to choose from (cited in Lebovic 2007, 16). Opinion pollster Sol Lebovic argues that increasing numbers are willing to vote for alternatives:

> That tends to explain why independents and minor parties do really well. Whether it's One Nation, Democrats, Greens, local mayors or other independents, people are looking for alternatives. The old two-party system doesn't really work and no one has thought of the new system, but the electorate is hanging out for it (cited in Steketee 2007, 21).

This is not simply a product of disillusionment with social democracy or convergence on neo-liberal grounds. But, as we shall see, these are important factors in the rise of the Greens. The Australian Democrats also managed to recruit 'lots of people … from within the Labor ranks' (Stott Despoja 2005).[4] On the right, the development of PHON was also a sign of the potential of the Far Right to grow out of this process. The polarization and volatility evident elsewhere is therefore also present in Australian politics.

*The Greens*

A key consequence of the ALP's embrace of neo-liberalism has been increased support for the Australian Greens. After becoming a national organization only in 1992, the Greens' breakthrough came in the 2001 federal election when they doubled

3 While there is evidence that Independent candidates have also benefited from the death of social democracy, our analysis will be confined to the minor parties.

4 The Australian Democrats are in steep electoral decline and now look finished as an electoral force. Since the polarization of Australian politics in the late-1990s, the centrist Democrats have floundered. They have also suffered as a result of their support for unpopular Coalition policies such as deregulatory industrial relations laws and a consumption tax. For an analysis of the Democrats' decline, see Warhurst (2006).

their vote from 1998, obtaining up to 15 percent support in inner-city lower house seats, and increasing their representation in the upper house from one senator to two (Wilson 2002, 19). In some inner-capital city seats they now obtain over 30 percent of the vote. From having just one Australian Greens member in the federal senate, this had risen to four by 2007. They also have representatives in all States except Queensland, as well as in the Australian Capital Territory. The Greens won the federal seat of Cunningham in a by-election in 2002 – the first time a minor party had secured a seat in the federal lower house since WWII. At the 2004 election, the Greens lost this seat back to Labor, but had a further two Greens senators elected to the upper house, and overall received close to a million votes.

Like most such parties, in recent years the Greens have broadened their agenda to encompass multiple social and economic issues, including land rights for Aborigines, free education, universal public health, and the closure of asylum-seeker detention centres (Brown 2004, 245, 246). The Greens strongly opposed the US-led 2003 invasion of Iraq, with Brown addressing anti-war rallies around the country (Norman 2004, 5). The Greens have sought to capture disillusioned social democrats, as well as tap into the radical politics of the AGM by pitching themselves as part of 'a new worldwide political force combating economic rationalism and corporate globalisation' (Oquist 2002, 147).

There is clear evidence of the Greens attracting ALP voters. Former Labor federal campaign strategist Bob Hogg (2003) noted that in the lead-up to the 1990 federal election:

> The party's research starkly emphasised that the vote leaching from the ALP to both the Democrats and the Greens was from our working class base … The very people who had robustly supported the election of the first Hawke Labor Government in 1983 were deserting us in hundreds of thousands.

According to Greens staffer Ben Oquist (2005), between roughly two-thirds and three-quarters of the party's voters are former Labor supporters. Newspaper reports carry stories of ALP members who have defected to the Greens after 30 years' membership (Wiseman 2007, 7). One prominent South Australian Labor MP joined the Greens in 2003 (Plane 2003). The federal lower house seat of Cunningham, won by the Greens in 2002, had been held continuously by the ALP since 1949, and had 'the remnants of an industrial working class' (Wilson 2002, 17, 19).

In numerous respects, the Greens bear little resemblance to traditional social democrats, with no historical relationship with unions, minimal focus on industrial relations and economic issues, and little orientation to the working class. Despite this, Burgmann (2004, 64) argues that the Greens' policies 'more closely resemble social-democratic ones than do Labor's'. More recently, the 2001 Australian Election Study (AES) revealed that on a range of issues, such as the power of big business in society and wealth redistribution, Greens voters are close to or slightly to the left of Labor voters (Wilson 2002, 20, 21). Labor senator Kate Lundy (2005) when asked whether the party was leaking support to the Greens responded:

> I know we are and … I do worry about it … I think it's completely natural that the party that can establish itself in the most pure form on progressive ideology is going to attract and inspire young people in droves and there's actually not a lot we can do about it.

Although arguing that this leakage to the Greens reached a peak in 2004–2005, fellow Labor MP Carmen Lawrence (2005) argues that:

> there is a constituency in the Australian community that I think is more interested in the agenda that we call values … and we're not responding to them sufficiently. They don't hear it within the Labor Party and so they go where they do hear it which is amongst the Greens …

Even in the arena most historically associated with social democrats, industrial relations, the Greens are eating away at Labor's base. The Greens in the lead-up to the 2007 election described Labor's industrial relations policy as '*WorkChoices* Lite' (cited in Marris 2007, 4). Firefighters' union National Secretary Peter Marshall noted that the Greens were the only party who would completely rip up *WorkChoices* (cited in Whinnett 2007). Victorian based Electrical Trades Union (ETU) leader Dean Mighell, expelled from the ALP for being caught on videotape advocating militant industrial action, argued that 'at election time the only party with truly worker-friendly policies is going to be the Greens' (cited in Syvret 2007). He later pledged $120,000 of ETU money so that the Greens could campaign against a Labor frontbencher in Melbourne. He described the Greens' industrial relations policy as 'traditional Labor', and argued that increasing numbers of trade union officials were thinking of either privately or publicly supporting the Greens in the federal Senate (cited in Marris 2007, 4; Bachelard 2007). John Robertson, the head of the New South Wales peak trade union body, called upon unions to vote Green in Senate elections (Norington 2007, 4).

Perceptions of convergence also have benefited the Greens. The absence of choice among the major parties over ecological issues was key to the formation of the first Green Party in Tasmania in the early 1970s (Doyle and Kellow 1995, 206). Their national leader Bob Brown (2004) argues that the general improvement in their situation is related to their ability to provide 'alternatives to the economic rationalism of the big parties' (Brown 2004). Oquist (2005) argues that the Greens have benefited from perceptions of convergence: '[T]here are I think less differences than there ever were.' In contrast, at the more polarized 1993 election, Oquist believes that the Greens suffered considerably (cited in Norman 2004, 169).

While the Greens have been successful in posing as a left alternative to the two major parties, where they stand on debates about capitalism and neo-liberalism is far from clear. They believe in a 'free market' (Oquist 2005), but not 'market fundamentalism' (Brown 2005, 203). They appear to be opposed to 'extreme' capitalism, rather than capitalism *per se* (Brown, cited in Norman 2004, 189). Their solution to the problem of how to balance the 'economy' and 'ecology' in a way that does not offend the interests of capital seems to come down simply to the election of a Green government (Brown 2005, 203). Except that the Greens' only record of governing in Australia is mixed. Holding power as part of a 'Labor-Green Accord' in Tasmania in the late-1980s and early 1990s, along with claiming to

oversee a host of progressive measures, it ended up supporting a 'cut-and-slash budget' (Brown 2004, 123).

This arguably reflects the pressures for compromise bound-up with parliamentary politics. On one occasion, Brown voiced support for the Howard government's privatization of the telecommunications company Telstra in return for funds spent on the environment, only to be forced to back down as a result of pressure from within his own party and in the community. Related to this is the question of where parliament sits in their strategy for social change. While much of their rhetoric suggests that their parliamentary strategy is simply one part of a broader social movement for change (Oquist 2005), as Vromen and Turnbull (2006, 176) comment, Greens MPs 'are strong advocates for parliament as an institution'. How they would overcome the tendency for social democrats to betray their supporters when confronted with the constraints of power is not self-evident (see also Chapter 13).

*The Pauline Hanson One Nation Party*

The rise of PHON, founded by former Liberal Pauline Hanson in 1997, must also be seen in the context of the death of social democracy and the neo-liberal consensus in mainstream politics. PHON received around one million votes (almost 9 percent) at the 1998 federal election, and nearly a quarter of the vote – winning 11 of 89 seats – at the Queensland State Election that same year. A very wide range of terms – including 'extreme', 'populist' and 'far' right – have been used to describe PHON (see Goot 2005, 103–105). PHON was not a fascist party or one containing significant fascist elements like arguably the other Far Right parties we examine in this book. It has been compared, however, with the Front Nationale in France and the Freedom Party in Austria (DeAngelis 2003). It was an anti-immigrant and anti-Aborigine party run by an authoritarian leadership (Ward, Leach and Stokes 2000, 4–7). DeAngelis (2003, 86, 87) argues that PHON is 'populist and radical right, insofar as Hansonites scapegoat Aborigines and Asians … for Australia's social and economic problems'.

While many of PHON's policies were focused on areas like immigration and Aboriginal issues, there were also attacks on free trade, foreign investment, and high levels of unemployment. At times, PHON tried to link the two, as in the case of immigration's supposed link to unemployment. In her maiden speech in parliament in 1996, Hanson attacked multiculturalism, claiming that Australia was in danger of being 'swamped by Asians', and that Aborigines enjoyed 'benefits' off-limits to non-Aborigines. But she also criticized free trade, the sell-off of Australian 'icon' companies to overseas investors, and the looming privatization of the government-owned telco (Telstra). She also attacked the federal government for 'kowtowing to financial markets, international organisations, world bankers, investment companies and big business people' (HRH 10 September 1996, 3860–3863). Goot (2005, 108) argues that Hanson's maiden speech focused on issues to do with race, whereas the speech she gave to launch her 1998 federal election campaign centred on economic issues such as unemployment and 'globalization'.

Early research indicated that many PHON supporters came from a (rural) National Party background (26 percent), with significant portions being former Liberal voters (17 percent) or ALP voters (12 percent) (Goot 1998, 55). Senior ALP

figures in November 1996 possessed polling evidence that the party was losing to Pauline Hanson 3 to 4 percent of its working class vote (Dodson and Kitney 1996, 3). Data from the 1998 AES found that 23 percent of PHON supporters at the 1998 election had voted for the ALP in 1996 (Bean 2000b, 144). This is quite a significant number, and may actually understate the number of former Labor supporters voting for PHON, since it is based on 1996 voting patterns. As we saw earlier, in 1996 there was a 15-percentage point decline in Labor's support from its traditional manual working class base (Bean 2000a, 76). Thus some of the 'Coalition' voters who switched to PHON in 1998 may in fact have had a history prior to 1996 of voting Labor. One opinion poll suggested that this was indeed the case (Millett 1997).

This might go some way towards explaining the high support for PHON among blue-collar workers. Bean and McAllister (2000, 181) comment that one would expect PHON voters to come from a conservative political background, rather than a social democratic one:

> Yet, in a number of significant respects it in fact tends more towards Labor's profile instead. One Nation support, for example, comes disproportionately from manual workers, trade union members, those who describe themselves as working class, the less well educated, men and people who never attend church – a list of characteristics which comes close to defining the archetypal Labor voter … [The evidence] suggests that it is Labor-style voters in rural areas – rather than the much more predominantly urban Labor voter – who are chiefly attracted to One Nation.

Goot argued that at the time of the PHON launch in 1997 'blue collar support for One Nation reached remarkable heights' (Goot 1998, 57). He remarks on the significance of the party's blue-collar support:

> Part of One Nation's appeal is almost certainly economic … [B]lue collar workers also bear the brunt of downturns in business activity and most of the scars from economic restructuring … [This may relate to] a fear, predominantly among men, not only of losing jobs but of losing full-time jobs … and the feeling that none of the established parties offers much prospect of seeing this reversed (Goot 1998, 71, 72).

Goot later retreated from this analysis, arguing instead that alternative interpretations of both opinion poll and AES data from the 1998 election showed that the distinctive features of PHON voters were strong attitudes on immigration and Aborigines (Goot and Watson 2001a). This conflicted with earlier interpretations of this data (Bean 2000b). Others criticized this position of Goot and Watson, arguing that the evidence did in fact reveal a relationship between PHON voting support and economic insecurity (Turnbull and Wilson 2001).[5]

What is clear is that a significant number of former ALP voters supported PHON. In that respect, Goot's earlier point about the economic vulnerability of blue-collar workers is still valid, for this is the only persuasive explanation for why these people are more susceptible to campaigns about immigrants taking jobs. PHON's emphasis on trade protection and reducing foreign ownership no doubt appealed to many of the hundreds of thousands of workers displaced from the manufacturing industry.

5 Goot and Watson (2001b) followed this up with a rebuttal of Turnbull and Wilson.

Labor MP Carmen Lawrence suggests that many of the ALP's traditional supporters who left it in 1996 'joined up [to] the Hansonite wagon … They didn't understand what had happened [economic restructuring] and why they should have been victims of it'. Current ALP Treasury spokesperson Wayne Swan argues that PHON's rise was the result of 'the reform fatigue of three decades of massive social, economic and technological change'. Echoing comments by others about the 1996 defeat, he attributed this to 'frustration with the Hawke and Keating reforms that had opened up the economy over the preceding 13 years … [T]he million Australians who voted for One Nation in 1998 did so for the same reason' (Swan 2005, 225, 226).

An element of PHON's success was its ability to portray itself as different from the major parties. DeAngelis (2003, 86) argues that during the post-war boom there had been a political consensus on trade protection and welfare, but after both major parties embraced neo-liberal globalization Hanson was able to 'quickly find political space among those protest voters who did not understand the changes, and who felt "abandoned" by the Labor and Liberal-National governments of the 1980s and 1990s'. Evidence from the 1998 election showed that PHON voters were 'much more likely than others to indicate that they could not see a difference between Labor and the coalition on issues' (Bean and McAllister 2000, 189). PHON itself lambasted what it called the 'Laboral factions' (Singleton, Aitkin, Jinks and Warhurst 2003, 329). Ward, Leach and Stokes (2000, 8) argue that the boost in support for PHON in 1998 came from the disappointment experienced by those who had voted out Labor in 1996 in the hope of slowing down the 'pace of change … [T]he Howard coalition Government has overseen, in search of efficiency, the continuing close of banking, health, educational and other services in rural and regional Australia'.

This, of course, raises the question as to why 'protest' voters opted for PHON rather than the Democrats or some other minor party (Goot and Watson 2001a, 182). PHON has been successful for many of the same reasons such parties have been successful internationally: in times of economic decline, some voters can be attracted by simplistic attacks on minorities blamed for societal wrongs such as unemployment. Some voters may find such racial politics unpalatable and look instead to more progressive alternatives. On the other hand, it is likely that some PHON voters *did* vote for other minor parties in the past. A loss of blue-collar support to PHON is not inconsistent with evidence that the ALP has also lost some of this support to the Greens and to the Democrats, for there is probably some overlap between the three groups. According to Bean (2000b, 144), AES data revealed that 15 percent of PHON's vote in the 1998 federal election comprised of people who had previously voted for the Democrats, Greens, other minor parties or Independents. Greens adviser Ben Oquist claims that the almost one million people who voted for it at the 2004 election made up a 'broad constituency' that included 'probably [some voters] from One Nation … [some] of the anti-establishment vote that One Nation represented went to the Greens' (Oquist 2005). Wilson argues that the growth in support for the Greens from the 2001 election onwards was 'yet another by-product of the *One-Nationisation* of Australian politics that has contributed to sharp cleavages in public opinion on a range of social issues'. There were some 'Labor-identifying voters' that opted for the Greens or the Democrats, and while others went to the Coalition or PHON (Wilson 2002, 17). When Labor lost votes at the highly charged 2001

election, 7 percent of these went to the Coalition, 5 percent to the Democrats, and 6 percent to the Greens (McAllister 2003, 450, 453). All this points to the volatility and instability of the current political context, and how it can lead to growth in support for different political forces along the spectrum.

PHON seems largely dead as a political project, seemingly amounting to little more than a 'flash party' (Ward, Leach and Stokes 2000, 2). This was partly the result of internal division, but also the work of an electoral system that did not translate the party's high voting support in 1998 into a single lower house seat (Ward, Leach and Stokes 2000, 11). There is also evidence that the Coalition was able to win back some PHON voters with its attacks on asylum-seekers in the lead-up to the 2001 federal election (Wilson 2002, 18). The Coalition may not, however, be able successfully to do this long-term, in light of its highly unpopular *WorkChoices* laws. For the moment the threat has receded, but the economic and social problems underlying PHON's growth are still with us (Ward, Leach and Stokes (2000, 11). There is, therefore, no certainty that the left will gain from the demise of social democracy in Australia.

## Conclusion

The ALP may well be re-elected to government at the federal level in 2007. Yet, this will not bring a social democratic policy revival. Depending on factors such as the state of the economy, what unfolds may end up resembling what has happened in Germany and, to a lesser extent, Britain where social democrats have returned to power after lengthy periods out of office only to dash any remaining hopes its supporters may have of genuine social change (see Chapters 7 and 9). Former Labor Prime Minister Paul Keating once claimed that 'most parties decline. Most parties run out of puff or they run out of energy, but the Labor Party has always been able to remake itself' (cited in Evans 2001, 50). It is hard to see today how the ALP can 'remake itself'. It is not necessarily doomed as an organization, and may continue to win elections in a system of compulsory voting that effectively forces voters to choose between two brands of the same product. The ALP cannot, however, for economic, political, and ideological reasons, return to a social democratic politics that would recapture the enthusiasm of its disillusioned supporters.

It remains to be seen if or what political alternative emerges to rival the ALP. The Greens have developed as the ALP's main competitor but there are serious question marks over its strategy and politics related to its ability to overcome the problems that have historically bedevilled social democrats. There is much to recommend former leader Mark Latham's (2005, 125) conclusion that the ALP is so spent as a force for progressive change that 'the best prospects for equality and social justice in Australia are likely to come from the work of social movements'. As is argued in the final chapter, however, such movements cannot be substitutes for parties, which remain instrumental in any future endeavours to build an alternative to the despair wreaked by neo-liberalism. The rapid rise of PHON is a warning of what can happen in the absence of such an alternative.

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# PART 3
# The Death of Social Democracy in Britain

The following two chapters examine the neo-liberalization of the British Labour Party and its political consequences. New Labour's major policy priority since coming to power in 1997 has been to create the most favourable conditions for business investment, rather than reduce disparities of wealth and power or protect workers from the ravages of the market. Despite its origins as a party of organized labour, New Labour seeks to distance itself further and further from unions, while its relationship with business becomes ever closer. Indeed, it has become largely another business party, at least in policy terms.

It is argued that the process of Labour's neo-liberalization was first given impetus by the economic crises of the mid-1970s when Labour in government started to abandon Keynesianism and accept aspects of monetarism. The continued decline of British capitalism since then is an important factor in New Labour's neo-liberal drive. The British economy has not been in the doldrums in the way that the German economy has (see Chapter 9). While the British economy has grown relatively strongly under New Labour, its strength is frequently overstated: the post-war period remains the high water mark of British capitalism. Also, the instability and uncertainty of the international economic context is a key factor in New Labour's neo-liberal reform drive.

In Chapter 8, we discuss some of the political consequences of Labour's embrace of neo-liberalism. The success of three consecutive general election victories masks a serious erosion of the party's electoral base. It has managed to hang on to power largely because of the biases of the electoral system and an unprecedentedly weak Tory Opposition. In any case, its support levels have plummeted, leading eventually to the forced resignation of Prime Minister Tony Blair.[1] New Labour has also suffered large electoral setbacks at the local and European levels. The party has lost a catastrophic number of members, and there is evidence to link this to the disappointment caused by the failure of New Labour to deliver fundamental change.

In an electoral sense, the Liberal Democrats have benefited from disaffection with New Labour's right-wing direction, and so to a lesser extent have some smaller parties such as Respect. But there is also evidence that Far Right parties such as the British National Party (BNP) have capitalized on the disillusionment with New Labour's neglect of working class economic interests. The extent to which the Far Right is able to grow depends on the left's ability to beat it to the punch by putting forward a viable economic alternative to the neo-liberalism of the major parties.

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1 This section covers developments up till the handover to Gordon Brown in June 2007.

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# Chapter 7

# New Labour, Not Labour

The Trades Union Congress (TUC) founded the British Labour Party in 1900 to advocate on behalf of unions in parliament (Fielding 2003, 18).[1] Like the ALP, British Labour is considered less ideological than its European counterparts (Scott 2000, 14; Hickson, Beech and Plant 2004, 1). It is also more generally considered less radical than other social democratic parties (Padgett and Paterson 1991, 15). Whereas Marxism influenced European social democrats, gradualist Fabian ideas influenced Labour (Thompson 2006, 12, 14, 30). As we saw in Chapter 2, however, this is somewhat of a caricature, for the differences between 'labour' and 'social democratic' parties are not sufficient to treat them as distinctly different types of parties. The labourist influence was evident in the adoption of Clause Four in 1918, which espoused common ownership of the 'means of production, distribution and exchange' (James and Markey 2006, 32). Labour has always been a 'deeply parliamentarist party' and its 'strategy for social change has been almost exclusively legislative' (Ludlam 2001a, 3). Thus, while it acknowledged the existence of class division, it did not stand for class struggle (Shaw 2004, 196). According to Shaw (1993), the post-war model to which Labour adhered involved: support for values such as equality, social justice and social welfare; a substantial public sector with some state ownership; state intervention in the economy to produce socially beneficial outcomes and stimulate growth; full employment via Keynesian demand management; a strong welfare state; and 'social contract'-style corporatism.

Like the other social democratic parties studied in this book, Labour's success in implementing such policies has been very limited. The first Labour governments of Ramsay McDonald in the 1920s made few real reforms (Fielding 2003, 20). The Attlee government (1945–1951), on the other hand, went in to the 1945 election aiming to establish the 'Socialist Commonwealth of Great Britain' (Arblaster 2004, 7). Attlee fell a long way short of achieving this, and his record included some spending cuts, the imposition of a wages freeze, and the use of troops to break strikes (see Cliff and Gluckstein 1996, chapter 11). Nonetheless, Attlee's government is iconic because of its expansion of the welfare state, building of the National Health Service (NHS), nationalization of 20 percent of the economy, and progressive taxation to redistribute wealth (Fielding 2003, 22).

On the back of three election defeats in the 1950s, an attempt was made to revise Clause Four by then-leader Hugh Gaitskell. This was defeated, however, by union opposition (Fielding 2003, 23). After eventually returning to power in 1964, and then being re-elected in 1966, Harold Wilson's government disappointed working

1 The terms 'British Labour', 'Labour' and 'New Labour' are used interchangeably throughout this section. Needless to say, the latter refers only to the contemporary party.

class voters by imposing cuts to spending and limits to wage rises. Many working class voters showed their discontent by not bothering to vote at the unsuccessful 1970 election (Fielding 2003, 22, 23, 24). Labour nonetheless regained office in 1974 under a radical programme to nationalize the top 25 British companies and bring about a 'fundamental and irreversible shift in wealth and power in favour of working people'. Labour Chancellor of the Exchequer Dennis Healey had promised that he would 'squeeze the rich until their pips squeaked' (Panitch 2000, 12). In practice, however, these ambitions saw little light of day as the new government was buffeted by financial market reaction, the sterling was devalued, and Labour sought IMF assistance, which effectively ended plans for wealth redistribution (Panitch 2000, 12). Labour lost power again in 1979, commencing an 18-year period of Opposition.

## The Evolution of New Labour

After losing power in 1979, Labour shifted to the left. However, after defeats in 1983 and then in 1987, the party moved back to the right. Driver and Martell argue that the 1987 election manifesto still promised some nationalization, the repeal of Conservative trade union laws, and unilateral nuclear disarmament. The loss in 1987, they argue, was a turning point. The ensuing Policy Review process between 1987–1991 resulted in Labour's adoption of a policy programme that was more 'pro-market, limiting the role of government to the enforcement of competition and to market failures such as training'. The party's support for renationalization and public ownership more generally 'slowly disappeared' (Driver and Martell 1998, 14, 15). Adopting his three-pronged approach to social democracy cited in Chapter 2, Hay argues that Labour had ceased to be a social democratic party by the end of the Policy Review (Hay 1999, 57, 58). Thus the abandonment of social democratic policies did not commence with Blair. This is not to say that nothing changed when Blair assumed the leadership after the death of John Smith in 1994. As late as the 1992 election, Labour was in favour of a progressive tax regime to fund the welfare state (Driver and Martell 1998, 40). Furthermore, whereas the Policy Review demanded a fairer tax system, in 1997 Labour promised no tax increases; the 1992 Manifesto was in favour of 'direct investment … to create thousands of new jobs', but in 1997 Conservative spending limits were advocated (cited in Ludlam 2001a, 16, 17). Former Labour frontbencher Bryan Gould argued in 1998 that the party was no longer Labour:

> New Labour defined itself by not being Labour. Issues on which the break could be highlighted were actively sought. New Labour is not Labour renewed. It is Labour rejected, Labour renounced. New Labour is a negative. New Labour is, and is meant to be, Not Labour (cited in Seyd and Whiteley 2002, 167, 168).

As Plant, Beech and Hickson (2004) point out, it is simplistic to present the policy changes as merely one of transition from 'Old Labour' to 'New Labour'. Fielding makes a valid point about the need to acknowledge the continuities between current and previous Labour governments (Fielding 2003, 30). One cannot agree, however,

with his broader argument that the party still wishes to reform 'capitalism so that it may better serve the interests of the majority' (Fielding 2003, 217). The party in the lead-up to taking power in 1997 consciously sought to dampen expectations of change (Mandelson and Liddle 1996, 234). It was clear that a Blair Labour government's plans for social democratic reform would not be thwarted by economic constraints, because it had no such plans. New Labour's first priority was in fact to create 'an economic environment congenial to the interests of transnational corporate capitalism' (Thompson 2004, 62). Liz Davies,well known left-winger, and for two years a member of the National Executive Committee (NEC), the party's most powerful decision-making body between conferences, argued that it was assumed that a Labour government would attempt to reduce inequality and restrain capitalism. This was 'no longer the case. For New Labour, global capitalism is liberating and progressive' (Davies 2001, 186).

## New Labour in Power

On May 1 1997, New Labour won a historic victory (see Chapter 8). The government instantly set out in a neo-liberal policy direction. One of its first decisions was to hand control over interest rates to the Bank of England. The Bank is known to be monetarist and *laissez-faire* inclined, so New Labour's decision reflected its endorsement of 'the Bank's order of priorities, in which full employment comes a long way behind price stability' (Shaw 1996, 227). Unlike Labour governments of the 1960s and 70s, New Labour undertook no nationalizations or extensions of state ownership, and in fact reduced state involvement in industry, including the partial sell-off of the air-traffic control system (King 2002, 10). Thus King (2002, 11) describes Blair's as 'Britain's first-ever non-socialist Labour government'. The decision to stick to the previous government's spending limits for the first two years was a key feature of early New Labour policy. Blair boasted that New Labour had been 'tougher on monetary and fiscal discipline than any Conservative Government before us; and are proud of it' (Blair 2000a). Blair argued that:

> The first phase of New Labour was essentially one of reassurance – we weren't going to repeat the economic mistakes of the past …
>
> We are not going to fight an election again with the financial markets in a state of fright; business alarmed; people worried about whether the nation would be adequately defended under a Labour Government (Blair 2001a).

This gives a sense of the way in which Labour had no plans to threaten vested interests. The absence of social democratic aspirations is reflected in Chancellor Gordon Brown's (2004a) comment that 'of all government's economic responsibilities … the first and most fundamental duty is economic stability'. As we saw earlier, neo-liberalism is a contested concept, but one of its central aims is to improve the conditions for investment and remove restraints on profit-making. Accordingly, Brown argues that the:

> modern role of government in the global era is to entrench stability, build a competitive environment, and to ensure the public investments necessary, in partnership with business, for a knowledge based economy – investments in science and technology, in enterprise and in skills.
>
> Government doing what it needs to but only what it needs to do (Brown 2004a).

Lest this be regarded as mere rhetoric, Brown reminded the British Chambers of Commerce in 2003 that the government had responded to requests from business with cuts in small business tax, capital gains tax, simplification of Value Added Tax (VAT) administration, and the provision of 'tax reliefs to promote research and development'. Furthermore, 'we heard you when you called for incentives for investment' (Brown 2003b). The role of government was confined to helping to create the conditions for business investment through tax cuts and other pro-business policies and supply-side measures such as investment in education and infrastructure. Blair (1998a) argued that jobs would be created by getting 'the conditions right in order to enable small and medium enterprise to flourish, not rely on unfocussed expansion of the public sector which has led to high taxes and high deficits'. Blair saw the government's main role as making Britain 'the number one place in Europe for business. Attracting business and investment is essential, economically and socially... Otherwise full employment is a chimera'. The government's policies on stability, increasing competition, and cutting taxes were implemented with this aim in mind (Blair 2000a). The faith New Labour invested in the market was evident in Brown's (2005) comment that the 'solution to poverty and unemployment is more enterprise'.

This neo-liberal approach did not alter with the government's increases in spending on health and education after the first two years of sticking to Tory spending limits. Indeed, Blair pointed out that there were in fact 'nearly three, tough years on public spending' (Blair 2000b). While these later increases were significant, the impact of these was considerably reduced by the initial austerity. If we take the NHS, the rate of increase in spending fell from an average annual rate of 3.3 percent under John Major to 2.0 percent under Blair in Labour's first term (King 2002, 5, 20). By 2007–2008, NHS spending was expected to rise to 9.4 percent of GDP – more than that spent by France on its health system, which is regarded by the World Health Organization (WHO) as the finest in the world (Le Grand 2002, 151). Le Grand (2002, 138) qualifies this somewhat by suggesting that the increases in 'real' terms in spending are somewhat inflated by the rapidly rising cost of drugs as well as labour costs. He nonetheless claims that there was 'never a period of consecutive years remotely comparable with the current government's plans of growth rates for the next six years of 7.4 per cent' (Le Grand 2002, 140).

Despite the increases in spending on health and education, overall public expenditure as a proportion of GDP was not expected to return to pre-1997 levels until 2003–2004 (Seyd and Whiteley 2002, 14). Blair assured business in 2004 that the spending came 'at the right time in the economic cycle. But we have kept it within certain prescribed boundaries and maintained overall borrowing at *well under the 40 percent and more of GDP we inherited*' (Blair 2004; emphasis added). Brown stated

in 2005 that the government would, 'impose a tough fiscal discipline with lower rates of spending growth in the coming period. And we will meet our fiscal rules'. The government would continue to prioritize 'stability first and foremost; stability yesterday, today and tomorrow' (Brown 2005). Moreover, he insisted that because of its links to industry the government would 'choose science and technology above many other spending priorities' (Brown 2004a).

*New Labour and Inequality*

Reducing inequality is a key ambition of social democracy (see Chapter 2). The Institute of Public Policy Research (IPPR) reported in 2004 that inequality in disposable income had risen slightly between 1996–1997 and 2001–2002, and that the Gini coefficient had risen from 33 to 36 over the same period (Paxton and Dixon 2004, 23, 32).[2] Another report by the Institute for Fiscal Studies (IFS) found that inequality rose during New Labour's first term 'on a variety of measures, to reach its highest ever level (at least since comparable records began in 1961)'. After that point inequality fell by 2005 to its 1996–1997 level, meaning that 'the net effect of eight years of Labour government has been to leave inequality effectively unchanged' (Brewer, Goodman, Shaw and Sibieta 2006, 1).

The policies of the government made it very difficult to reduce inequality, including the decision to stick to Tory spending limits (Ludlam 2001a, 2). As was shown above, New Labour set about reducing the burden of tax on the corporate sectors. Labour retained Margaret Thatcher's shifting of the fiscal burden from direct to indirect taxation (Callinicos 2001, 53). This is significant given that a more progressive tax system is widely regarded as one of the best means of reducing inequality. These policy decisions reflect the fact that the party, while never in favour of equality of outcome, is more accepting of inequality than ever before (Marquand 1999, 234). Peter Mandelson claimed in 1999 that the government was 'intensely relaxed about people getting filthy rich' (cited in Fielding 2003, 177). Blair apparently believed in the 'trickle-down' effect (Hattersley 2001). As Marquand (1999, 234) writes of New Labour:

> It has abandoned the notion of redistribution through what it disdainfully calls "tax and spend". It is unshocked by the vast and growing disparities of income engendered by the capitalist renaissance … In the economic domain, it is egalitarian only in the sense that it wishes to give more people the opportunity to benefit from inequality.

Former deputy Labour leader Roy Hattersley (2001) argued that Blair's 'meritocracy' was not social democratic since it 'only offers shifting patterns of inequality'. Hickson (2004, 130, 131) argued that Labour's acceptance of inequality calls into question 'whether New Labour is in fact social democratic in any meaningful sense'.

The minimum wage, introduced in 1998, might have done something to reduce inequality. But because 18–21 year olds would be paid a youth rate, and it was set at the miserly rate of three pounds and sixty pence, it was condemned by union leader

2 The Gini coefficient is a measure of inequality that sets 0 as perfect equality and 1 as perfect inequality. The higher the number the greater the degree of inequality.

Bill Morris as sanctioning 'workplace poverty' (cited in Ludlam 2001b, 126). Blair (1997) asked perturbed business leaders to remember 'that we are consulting business every step of the way; and that taken altogether, the entire changes proposed would still leave us with a labour market considerably less regulated than that of the USA'. As Liz Davies (2001, 186) argued, business was also more than compensated with tax breaks, privatization, Public-Private Partnerships (PPPs) and other pro-business policies.

*Another Party of Business?*

While New Labour has retained its formal links with unions, the labourist notion that state intervention is required to redistribute the wealth created by workers is completely foreign to it. Unions hold no special pride of place in the party. Blair (1996, 17, 35) himself wished for Labour to be a 'people's party' comprised of 'the self-employed and the unemployed, small businesspeople and their customers, managers and workers, home-owners and council tenants, skilled engineers as well as skilled doctors and teachers'. Unions would be heard just as employers would be, but 'neither will have an arm-lock on Labour or its policies' (Blair 1996, 133). The process of estrangement between the unions and Labour did not start with Blair, but under him it has reached a point where an end to the historical alliance is foreseeable in the future (Ludlam 2001a, 26; Ludlam 2001b, 129).

Unions now arguably have less control over the party than does business. Prior to coming to power Blair had overseen measures to limit the unions' financial contribution to the party, and to reduce union votes at party conferences (King 2002, 10). According to Osler, who coins the expression 'Labour Party PLC' to reflect the extent to which it has become a business party, in 1996 union donations accounted for less than half of all donations to Labour for the first time ever. A party once funded almost solely by unions can now match the Conservatives in attracting donations from business. Labour's electoral success under Blair and its pro-business policies are critical to the willingness of business to support Labour (Osler 2002, 11, 30, 38, 75). Blair told the Confederation of British Industry (CBI) that the 'partnership' with business was 'a founding principle of New Labour and it will not change' (Blair 2001b). Blair stated his desire for New Labour to become 'the natural party of business' (Shaw 2004, 197, 198). Blair was reputedly the first Labour leader to visit Wall Street, and under him the party produced its first ever manifesto for business (cited in Yergin and Stanislaw 1998, 366, 367). In 2005, Brown congratulated CBI members for 'your resilience, your innovative flair, your courage to change and your patriotic commitment to Britain' (Brown 2005). Thus, whereas business was complimented for its contribution to the country, unions were seen as 'vested interests' and 'wreckers' (Osler 2002, 12). Part of the result of this new relationship with business was the 'cash-for-peerages scandal', which erupted in 2006 and led to the arrest of, among others, Blair's senior fundraiser Lord Michael Levy over allegations of donations made by businessmen to Labour in return for peerage nomination.

Kimber claims that for close to a century 'it has been automatic for unions that wished to have a political voice to affiliate to Labour', but now 'that has changed'.

The reasons for this included anger at New Labour's attacks on the national fire fighters strike in 2003 and more general issues such as privatization; the RMT rail and maritime union's expulsion over its refusal to accede to Labour pressure over members' decision to allow branches' affiliation to other parties; and the spirit of resistance surrounding opposition to the Iraq war (Kimber 2005).

Higher levels of business contributions are, of course, an important factor in New Labour's willingness to ignore unions in the sense that it is less reliant on them financially. Electoral factors surely also play a part in the weakened relationship since the party came to believe that unions were less popular (Shaw 2004, 191). It needs to be recognized that Labour's efforts to reduce the role of unions in the party has not been a one-way street (McIlroy 1998, 546, 547, 552). But it can be argued that the changed relationship is largely a product of Labour's abandonment of social democratic policies. Because these policies benefit workers, Labour's abandonment of them in the interests of being pro-business has antagonized workers and unions. Furthermore, improving the conditions for business investment would be expected to include weakening the rights of organized labour whose aspirations for strong wages and conditions threaten business profitability. As we saw earlier, New Labour retained the Thatcherite anti-union laws. The pro-business relationship also reflects neo-liberalism's emphasis on the private sector for generating employment and growth.

*Iraq*

No discussion of the death of social democracy in Britain could exclude the impact of the Blair Government's participation in the Iraq war in 2003, which has been very costly to Labour in terms of electoral support and membership losses (see next chapter). It is also important because one cannot, when passing judgement on the social justice of the New Labour project, separate its domestic policies from its foreign policies. As Watkins (2004, 33) argues, New Labour has a 'bloodstained record. The civilians killed in Blair's successive aggressions abroad – Iraq, Yugoslavia, Sierra Leone, Afghanistan, Iraq – outnumber Thatcher's tally by tens of thousands'.

New Labour's involvement in Iraq was allegedly based on the objective of ridding Saddam Hussein of his Weapons of Mass Destruction (WMD). Few self-respecting people now think that the official justifications pre-war – provided via dossiers, one of which contained 12 year-old 'evidence' plagiarized from an PhD thesis, replete with the original typographical and grammatical errors (Kampfner 2004, 266) – have any merit. WMD likely was just the pretext. Callinicos (2003) argues that America's role in the Iraq war has to be seen as part of the systemic drive to imperialism by leading capitalist states: under pressure from emerging powers such as China, and facing relative economic decline, by invading Iraq and bringing about regime change the US sought to preserve its status as the sole superpower by asserting its military prowess to the rest of the world and further extending its reach and influence in a key region. Similarly, Harvey argues that, while there was no simple conspiracy to appropriate oil for US companies, in the context of declining global reserves and the importance of oil to advanced capitalist nations' economies, greater US dominance of the Middle East would strengthen the US by allowing it to control the flow of oil to its competitors (Harvey 2003, 18–25).

Britain's role in the war should be seen as part of an attempt to align itself with the world power that has the same vision of free market liberalism and the capability to deliver it, for the US is still pre-eminently responsible 'for the making and management of global capitalism' (Panitch and Gindin 2005, 112). Accordingly, Blair argued that 'our alliance with America and our position in Europe give us unparalleled purchase on international affairs for a country our size' (Blair 2003a).

Also, New Labour's involvement in Iraq and the willingness to wage war more broadly is consistent with the neo-liberal policy ambitions pursued at home. Witness Blair's argument to the CBI that it was essential to militarily intervene abroad in order to protect vital economic and security interests, particular in the aftermath of September 11 (Blair 2001a). An additional link between the neo-liberal domestic politics of New Labour and its support for war was provided by the fact that the intervention involved the transformation of the Iraq economy along neo-liberal lines (Harvey 2003, 180). Head of the Coalition Provisional Authority in 2003, Paul Bremer, spelled out the policy approach on which Iraq's economy would be based, including 'full privatisation of public enterprises, full ownership rights by foreign firms of Iraqi businesses, the repatriation of foreign profits … the opening of Iraq's banks to foreign control, national treatment for foreign companies and … the elimination of nearly all trade barriers'. In addition, there were heavy restrictions on the right to organize in unions and to strike, and a regressive 'flat tax' was imposed (cited in Harvey 2006, 10). No doubt opportunities for British business will flow from an open, pro-Western market economy existing in Iraq. Furthermore, Zunes (2004) noted how 'US occupation forces have restricted investment and reconstruction efforts almost exclusively to countries which have supported the US invasion'.

## Policy Convergence

The policy record surveyed above has added to any existing perceptions that few differences separate the major parties. The argument that New Labour has abandoned social democracy is given credence by the continuities between Thatcherism and New Labour. Along with Reagan in the US, Thatcher's rise to power is rightly regarded as a key marker in the worldwide neo-liberal ascendancy. A social democratic policy agenda ought to imply a clean break with Thatcherism. Leading New Labour figures Peter Mandelson and Roger Liddle (1996, 1) openly asserted, however, that the party would commence from 'where Margaret Thatcher left off, rather than … dismantle every single thing she did'. Driver and Martell (1998, 2) argue that, while not reducible simply to Thatcherism, New Labour like the former has become 'more committed to free trade, flexible labour markets, sound money and the spirit of entrepreneurial capitalism, not to mention greater individual self-help and private initiative in welfare'. According to Hay (1999, 49–52), on issues such as privatization, trade unions, local government and welfare, Labour after the Policy Review had largely accepted Thatcher's approach. No two governments are alike, but there are key policy continuities between New Labour and its Conservative predecessors. Furthermore, recall Ryner's argument from Chapter 2 that a government's agenda does not have to be completely Thatcherite in order to be neo-liberal.

It is not the first time that there have been similarities in the parties: witness *The Economist*'s description of 'Butskellism' (a combination of the Tory R.A. Butler and the Labour leader Hugh Gaitskell) in the 1950s (cited in Birchall 1986, 83). The difference then was that this apparent consensus was not so totally alien to social democratic policies. This was reflected in the Tories' refusal to overturn the reforms of the Attlee years, believing these to be consistent with the needs of capitalism at the time (Birchall 1986, 83). In contrast, Tory leader David Cameron argued in March 2006 that there was a 'big gulf between the parties' in the 1980s:

> The Labour Party wanted to nationalise everything and the Tories devoted much of their effort to battling trade unions and trying to cut taxes, spending and government regulation. I do not think there is that big gulf now … The fact is Labour has given up a lot of the very left-wing things they used to believe in. So there is no point pretending they want to nationalise. They don't. So if that inevitably means that there is less distance between the parties, well fine, so be it (cited in Wilson 2006, 11).

Cameron may be guilty of overstating the differences in the 1980s, but his general point is conceded by Blair, who in 2005 argued that 'one of the big changes that has happened in the world in the past 20–30 years has been that many of the old divisions between Left and Right have been obliterated' (Blair 2005). Blair argued that fiscal rectitude, low taxes, labour market flexibility, reduced regulation for business and free trade, once were regarded as right-wing but are now 'the agenda of a modern progressive centre-left … [I]t is now axiomatic for the Government to be pro-stability, pro-business, and pro-enterprise' (Blair 2004). In 2004 he went so far as to claim that 'the US neo-conservatives are not a world away from the progressive left' (cited in Kimber 2005).

There is also evidence of public perceptions of declining differences between the parties. A poll for *The Daily Telegraph* in 2007 found 58 percent agreement with the statement that there 'aren't really important differences between the parties: they're all much of a muchness' (*YouGov* 2007). Allen cites evidence showing that, whereas in 1987 83.5 percent of voters identified 'substantial differences' in the policies of the two major parties, this fell to 32.5 percent in 1997, and to 26.7 percent in 2001. In July 2004, 32 percent viewed the parties as 'very different', and 41 percent held the same opinion in March 2005, but this was still a large drop from the 1987 figure (Allen 2006, 62). Some 61 percent of party members in 1999 disagreed with the claim that Labour 'has not moved away from its traditional values and principles' (Seyd and Whiteley 2002, 61).

To the extent that New Labour was guided by a distinctive vision, initially this was described as a 'Third Way' between Old Labour and full-blown Thatcherite neo-liberalism.[3] Yet, the Third Way largely disappeared from the rhetoric of New Labour (Turner and Green 2007, 2). This merely gave credence to views that it lacked substance (Hattersley 2004, 276). Moreover, it is questionable that the Third Way did not imbibe neo-liberal politics. Jahn and Henn's (2000, 42, 35, 36) examination of the rhetoric of Third Way social democrats revealed the incorporation of 'neo-liberal

3 A full discussion of the Third Way is impossible here. For a detailed endorsement, see Giddens (1998). A left critique can be found in Callinicos (2001).

discourse into their respective election campaigns in the mid-1990s', as well as a greater willingness to espouse market-oriented solutions. The latter was all too clear in the text of the statement Blair made with fellow Third Way advocate SPD Chancellor Gerhard Schröder in June 1999 (see Blair and Schröder 1999).

## Explanations

### *Ideological Trends*

The extent to which the demise of Keynesian ideas impacted on social democracy broadly was dealt with to a large degree in Chapter 3. The impact on British Labour is explored in more detail further below. In Chapter 3, we also saw that social democracy was dealt an ideological blow by the collapse of the Berlin Wall and the dissolution of the Soviet Union. According to Blair, his non-programmatic 'ethical' version of socialism was vindicated by these events (Blair 1996, 6, 16). Elsewhere, he argued that post-Cold War 'the battle between capitalism and socialism … is dead and buried' (Blair 2000c). Blair believed that the collapse of the Soviet Union would allow him to achieve the success in revising Clause Four that had eluded Hugh Gaitskell (Osler 2002, 48).[4] Partly this was because the left inside Labour had been weakened by what had happened in Eastern Europe (King 2002, 16). Blair argued that the 'command economy has failed almost anywhere, the few lingering examples are withering … and it is only a matter of time before they disappear and their people are freed' (Blair 2003b). Fraser Kemp (2006) argued that 'when the Berlin Wall went down a lot of that [ideological division between parties] disappeared', though he argued that important distinctions remained. Fellow Labour MP Alan Campbell argued that the fall of the Berlin Wall and the collapse of Communism 'fundamentally altered the way that we saw the world'. While it did not destroy 'socialism forever', 'it changed the debate and it changed the context' (Campbell 2006).

It is a commonplace to question what social democrats stand for in modern politics. But as we saw earlier, New Labour *is* guided by certain ideas about the role of the state in the economy. As Driver and Martell (1998, 181) argue, New Labour is 'a more ideological administration than many of its predecessors. New Labour has a set of ideas and corresponding policies which it actually wishes to pursue in power *and* feels it can'. Hay and Watson (2003, 166), write of Labour's 'largely self-imposed shackles of neoliberal economics'. According to one political commentator, the most influential thinkers for Gordon Brown were Adam Smith and neo-conservatives Gertrude Himmelfarb and James Wilson (Lee, cited in Bright 2007).

On the other hand, Hay (1999, 34) reminds us that New Labour's ideas cannot be divorced from the political-economic context in which they develop and are applied. This is one of the main weaknesses of arguments that stress the role of neo-liberal

4 Blair and other party leaders pushed for Clause Four to be revised so that the party was no longer committed to nationalization. A special party conference on 29 April 1995 agreed to a new clause that espoused, among other things, 'the enterprise of the market and the rigour of competition' and a 'thriving private sector'. The full text can be found in Seyd (1998, 58).

ideas. Blair himself (1996, 124) argues that governments of different persuasions in the 1980s reduced tax, scrapped exchange controls, and deregulated not because of 'ideology but [because of] the altered circumstances of the world economy'. If this is a reference to falling economic growth rather than globalization – which we have seen was in fact facilitated by some of the policies Blair nominates – then it is an accurate characterization. The ideational explanation also cannot account for the abrupt shifts mid-office by the Callaghan and Wilson governments.

### *Electoral Explanations*

A highly influential explanation for New Labour's abandonment of traditional social democratic policies is the electoral one (Yergin and Stanislaw 1998, 365). Defeat at the 1983 election was regarded as a turning point because it was interpreted as a rejection of Labour's policy package – dubbed 'the longest suicide note in history' – including nationalization and renationalization, government central planning, exchange controls, and trade barriers (Kenny and Smith 2001, 244, 245). The 1992 general election defeat provided the impetus for other significant policy changes, including Clause Four revision.

As we saw in Chapter 3, arguments about the need for social democrats to win the 'centre ground' of electoral politics are influenced by the work of American economist Anthony Downs (1957). Fielding (2003, 8) points to the Downsian nature of British electoral politics, where success by one side of politics (the Conservatives, from 1979–1992) tends to result in policy imitation by the other (Labour). Hay (1999, 94) further argues that New Labour has by its own choice acted in a manner consistent with the Downsian description of party behaviour. Labour MP Mary Creagh (2006) argues that ideals need to be 'wrapped in a marketing and brand message … that appeals to a wider population than just your natural party members, your natural stakeholders – public sector workers'. This would be even more true if dealignment were occurring and one's natural constituency was shrinking. Fielding (2003, 6) cites the decline of key Labour constituencies such as manufacturing workers and trade union members, while Pattie points to rising car and home ownership levels, which are correlated with Conservative voting patterns (Pattie 2001, 39, 40).

There are considerable limits to the explanatory capacity of electoral factors. For instance, the assumption that the policy revisions were electorally necessary is questionable. There is some empirical evidence to suggest that Labour moved further right than the median voter (Curtice, cited in Hay 1999, 99). Wickham-Jones (2004, 41) points out that the party won the 1974 election on a radical platform. A more important factor than 'Old Labour' policies in the party's poor performance in the 1980s and 90s, he says, was likely to have been disunity brought on by division over the party's record in government. As Marquand (1999, 250) notes, the 'psephological evidence suggests that New Labour won as Not Conservative rather than as New Labour'. Even when it seemed that the Tories were doomed to lose the election, Blair sped up the task of bringing New Labour closer to the Conservatives in policy terms (Callinicos 1996, 3). This casts doubt on the argument that the policy revisions were motivated by simple electoral pressures.

Arguments about dealignment and the decline of the working class also are marred by weaknesses. For instance, consistent cross-class appeals by New Labour have contributed to the so-called dealignment that is said to have caused it to make such appeals (Hay 1999, 36). The declining working class thesis also misses Seyd and Whiteley's (2002, 181) point that together unskilled, semi-skilled and skilled manual workers, plus recipients of unemployment benefits and retired members of the working class, constitute a majority of the electorate.[5] The socio-economic explanation based on changing electoral demographics cannot account for the sudden break from Keynesian policies when Labour was in government (see below).

*Globalization and European Integration*

According to McGrew (2004, 137), globalization appears more prominently as a modernizing pressure in New Labour rhetoric than it does among social democrats elsewhere. Gordon Brown argued that globalization in the form of competition from 'traditional competitors in the advanced industrial economies' but also 'from emerging market economies not least in Asia and the east of Europe' necessitated a policy package of fiscal and monetary restraint, free trade, and 'flexibility' in product, capital, and labour markets – in other words, a neo-liberal policy approach (Brown 2003a). Countries not implementing such policies would suffer 'lost markets, stagnation and economic decline' because 'funds will flow to those countries whose policies inspire confidence. And investors punish mistakes more quickly and more severely than in the past' (Brown 2004b). Furthermore, government cannot challenge this because globalization is 'a fact and [is] here to stay' (Brown 2006).

Tony Blair has similarly argued that borders were becoming 'more porous' and that technological change was 'reducing the power and capacity of government to control its domestic economy free from external influence' (Blair 1996, 121, 122, 204). Blair outlined four policy 'rules' for government under globalization: fiscal rectitude, low taxes, labour market flexibility, reduced regulation for business, and free trade (Blair 2004). He warned that: 'If the markets don't like your policies they will punish you' (Blair 1999). Fraser Kemp (2006) argued that being for or against globalization was akin to supporting or opposing 'the tide coming in. It actually doesn't matter. [The] reality is it's happening and it's happening at a fairly phenomenal pace'.

Labour leaders' attitudes to globalization thus provide a *prima facie* motive for not interfering in the market and not redistributing wealth: they believe that globalization makes this impossible. As an explanation for the party's neo-liberal shift, however, globalization will not suffice. New Labour politicians appear just as guilty as ALP politicians of overstating the impact of globalization. As is true elsewhere, neo-liberal policies helped create globalization in Britain (Leys 2001, 34). The task therefore is to explain the adoption of these policies in the first place.

Along with globalization, there are regional pressures in the form of European integration. British politicians have often presented Europeanization as an external

5 If we add some white-collar workers to this description of the working class, the point is further reinforced.

constraint, or the 'work of others' (Hay and Rosamond 2002, 159). It is recognized that EU membership and the direction integration has taken in recent years present neo-liberalizing pressures (see Chapter 3). But, it is also the case that New Labour has gone from being a party that called for withdrawal from the EU to being firm supporters of not only membership, but also the neo-liberal policy direction of Europe more broadly (Gray 1998, 6; see also Stephens 2001, 70). Indeed, New Labour was seen on the right of debates over whether the EU should strive towards a social Europe – a position associated with France and Germany in particular – or be little more than a free trade zone (*Deutsche Welle* 2005b). Blair argued in 1997 that job creation 'would not come from the EU injecting demand into the continent's depressed economies but from Europe-wide encouragement of labour market flexibility' (cited in Thompson 2001, 272, 273). New Labour was also a strong supporter of the EU Services Directive in its original form before opposition from countries such as France and Germany saw it watered down (*BBC News* 2005).

Thus New Labour is not simply hostage to EU neo-liberalizing pressures but is helping to create them. Another problem with this explanation is that it cannot account for similar processes of neo-liberalization undergone by social democrats in countries outside of the EU, such as Australia (see Part 2).

*Economic Decline*

As we saw earlier, Labour's greatest success in achieving social democratic reform was under Attlee's government in the post-war period. Thompson (2006, 85) argues that the reformist zeal of Attlee's government *vis-à-vis* previous Labour governments had much to do with its operation in conditions of full employment, and large increases in industrial production, GDP and investment (Thompson 2006, 145, 147, 148). The British economy did perform less well relative to other countries in the post-war period (Pope 1998, 48, 49). This relatively poor performance in part explains the disappointing Wilson governments of 1964–1970 (Padgett and Paterson 1991, 151). Nonetheless, the post-war period represented the most successful period in British economic history, with growth rates averaging 3 percent in the years 1950–1973, and unemployment averaging between 1 and 2 percent (Crafts and Woodward 1991, 8; Broadberry 1991, 225).

The prosperity of the period led many in the Labour leadership to take these conditions for granted, and to accept Crosland's emphasis on economic growth as the means by which equality would be achieved (Plant 2004, 109). Labour Party documents of the 1960s argued that 'economic growth is the key to Labour's social programme … [it] sets the pace at which Labour can build the fair and just society we want to see' (cited in Padgett and Paterson 1991, 36).

Unsurprisingly Labour was significantly affected when the halting of the post-war expansion coincided with the re-election of the Wilson government. According to Artis and Cobham (1991, 2), Labour took power at the beginning of 'the most testing economic crisis experienced by the Western economies for over two decades'. Pope writes that the '1970s marked the end of the general prosperity', and that the 'setback of these years had had no postwar equal' (Pope 1998, 52, 60, 62). There were 'sharp falls in GDP in 1974 and 1975 followed by four years of moderate

growth' (Artis and Cobham 1991, 7). Whereas annual growth averaged 3 percent in the 1950–1973 period, this fell to an average of 1.4 percent in the 1974–1986 period (Crafts and Woodward 1991, 8). According to Thompson (2006, 225), British capitalism now appeared unable 'to finance a programme of social reform', and it 'looked increasingly remote' that it would be able to do so again.

In response to the slump, Labour made 'the largest cuts in real public expenditure that have occurred in the last fifty years' (Jackson 1991, 11). Wilson's 1975 'social contract' was introduced for the specific reason of securing wage restraint from unions (Padgett and Paterson 1991, 155). Wilson's successor James Callaghan's famous speech to the party conference on 28 September 1976, in which he claimed that one could no longer spend 'your way out of a recession and increase employment by cutting taxes and boosting Government spending', constituted a 'counter-revolution to the earlier Keynesian revolution' (Jackson 1991, 73, 74). Callaghan's monetarist son-in-law Peter Jay drafted the speech on his behalf (Shaw 1996, 134). This speech, according to Blair, marked the 'death knell of the postwar Keynesian consensus'. He observes that between 1976–1979 the Labour government ran 'a tight budgetary regime and introduced monetary targets into the UK for the first time'. This, Blair argues, was 'through Denis Healey's initiative', rather than at the behest of the IMF (Blair 1996, 80).[6] For Callaghan, the key was to restore profits for the private sector, and it was now believed that only entrepreneurship, not state intervention, could shore up the economy (Padgett and Paterson 1991, 155, 156).

The impact was also evident on Crosland, whose later writings were 'deeply pessimistic. All that could be achieved during the 1970s was very modest indeed given the low rate of economic growth' (Hickson 2004, 122). Crosland acquiesced to Cabinet pressure for the expenditure cuts (Padgett and Paterson 1991, 51). The nature of Labour's policies allowed Thatcher to claim that she was simply following the path of her predecessor, and they became a 'signal for the new era of imperial neo-liberalism that came to be known as the "Washington Consensus"' (Panitch 2000, 13).

There is a clear link between these events in the mid-1970s and New Labour. Fielding (2003, 16) concludes that, in addition to changes in the 'electoral landscape', New Labour's 'roots can also be found in the response by the 1974–1979 Labour governments to the end of that "golden age" when capitalism took what was for revisionists an unexpected and unwelcome turn'. According to Kenny and Smith (2001, 249), Callaghan's 1976 speech is a 'neglected precursor to current Labour thinking'. Economic growth arguably has become even more important to any ambitions for reform today because higher taxation and nationalization are *a priori* excluded (Shaw 1996, 226). Policies such as the Public Finance Initiative (PFI) allow governments to not raise their public sector borrowing requirement and instead rely on private investment. In this sense, they are a response to the 'fiscal crisis of the state' engendered since the onset of recessions in the 1970s.

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6 A decline in the value of Sterling and the economy's wider economic problems prompted the decision in 1976 to apply for an IMF loan. The loan of two billion British pounds was agreed, and involved significant spending cuts in 1977–1978 and 1978–1979 (Artis and Cobham 1991, 12).

Moreover, the problems created by the collapse of the boom were not simply of a fiscal nature. According to Plant, the demise of Keynesianism removed the means by which Labour strived to achieve equality and social justice. He asks the rhetorical question of whether Labour managed to come up with new means to achieve these traditional ends, or were the latter moderated in line with 'the only available political and economic means'? An indication of Plant's own answer to the question is provided by his claim that New Labour policies on equality have been moderated in light of changed circumstances (Plant 2004, 113, 118). The New Labour changes thus represent merely the latest stage in a process that commenced in the mid-1970s.

If it is true that the collapse of the post-war boom and the ensuing lower economic growth was the turning point in the neo-liberal evolution, it might be countered that the much healthier economic circumstances of the British economy today pose problems for this explanation. The British economy, for instance, grew at an average annual rate of 1.7 percent per year in the 1990s, but grew by 2.7 percent in the first five years of the 21st century (Toynbee and Walker 2005, 126). Thompson (2006, 280) argues that 'since New Labour came to power Britain has enjoyed the longest period of sustained growth since quarterly national accounts were produced 50 years ago'. Others note that the unemployment rate between 2002–2005 in Britain was less than 5 percent, or half the level in France and Germany (Quinn 2006a, 171). According to some analyses, then, any discontent in the electorate with politics cannot be because of economic problems (Allen 2006, 74, 75).

There are three problems with such an analysis: it ignores real hardship in Britain, overstates the strength of the British economy, and ignores the international economic context impinging on domestic policies. In terms of the first problem, the social picture is much less rosy than Brown and Blair would present it. David Marquand writes that new Prime Minister Gordon Brown has presided over:

> a profoundly inegalitarian society, in which most of the extraordinary productivity gains procured by the technological revolution of our time and the onward march of globalisation are hogged by a new class of global ultra-rich, liberated from the constraints of place and nationhood (Marquand 2007).

Such is the skewed nature of the gains that the majority of the population appear oblivious to the prosperity. A survey in 2003 for the *Mail on Sunday* found that 49 percent believed that their family would be worse off that year compared to the preceding one, compared to 15 percent believing that they would be better off (*YouGov* 2003a, 2; see also *YouGov* 2003b, 1; *YouGov* 2003c, 4, 5; *YouGov* 2004, 1). Even Blair himself acknowledged that: 'Life is a real struggle for many people, uncertain, insecure and under constant pressure. And that goes for middle class as well as lower income families' (Blair 2001b). As we saw earlier, inequality has not fallen under New Labour. While the percentage of people living in poverty fell to 22 percent in 2002–2003 from 24 percent in 1993–1994, this was still significantly higher than the 15 percent living in poverty in 1981 (Paxton and Dixon 2004, 10). The percentage of children living in poverty did fall substantially to 23 percent in 2002–2003, but this was well short of the 10 percent level recorded in 1968 and 12 percent in 1979

(Paxton and Dixon 2004, 11; Brewer et al. 2006, 56). The government is almost guaranteed to fall short of reaching its target, set in 1999, of halving child poverty by 2010, particular as it was revealed in 2006 that an additional 200,000 children fell below the poverty line (*BBC* 2007b). The authors of the above-cited IPPR study thus conclude that the 'stakes could not be higher for those arguing for greater social justice in the UK' (Paxton and Dixon 2004, 61).

These statistical trends are likely to be related to the fact that the British economy has been weaker during the Blair years than many assume. There is little doubt that 'in historical perspective the British economy has never performed as well as during the golden age' (Middleton 2000, 26). Middleton's analysis ends just as Blair comes to office, but at best he can be said to have presided over a level of growth lower than the average recorded during the whole of the post-war boom. Watkins' analysis shows that, while GDP growth averaged 2.4 percent per year between 1997–2002, this was down from the 3.2 percent average of the preceding five years. Moreover, the unreliable credit boom, including higher household debt, has played a key part in the expansion as well (Watkins 2004, 12, 13, 14). Thompson (2006, 280) cites figures showing that growth averaged 2.76 percent for the period 1997–2001, and 2.5–3 percent between 2001–2005. In comparison, annual average growth over the much longer period of 1950–1973 was 3 percent (cited in Crafts and Woodward 1991, 8). Prior to 1973 'growth had fluctuated positively and there had never been a fall in GDP', but since then 'the British economy experienced three serious recessions' during the 1970s, early 80s and early 90s (Middleton 2000, 41). The frequently commented on low levels of unemployment under Blair of less than 5 percent ignore the fact that in 'the 1950s and early 1960s, unemployment rates of between 1 and 2 per cent were regarded as normal' (Broadberry 1991, 225). Only 40 percent of the labour force is in full-time, tenured employment (Watkins 2004, 12, 13, 14). When unemployment stood at 4.7 percent during the recessionary year of 1979 (Pope 1998, 60) it was extraordinarily high by comparison with the post-war boom years, but a similar figure under Blair is considered almost akin to an economic miracle.

The third problem with the rosy picture presented of the British economy under Blair is that many commentators make the mistake of neglecting the international context. The international economy, as we saw in the opening chapter, has been in a state of continual decline since the mid-1970s. Britain cannot divorce itself from this situation, and as many have noted it is perhaps comparatively more reliant on the outside world for its economic success due to the internationalized nature of its economy. Blair himself argued that 'crises are no longer confined to one nation – a national crisis becomes an international crisis' (Blair 1998b). The international context has increasingly been characterized by frequent shocks and downturns. As Brown put it in the aftermath of the Asian 'tigers' crisis in the late-1990s:

> This has been a difficult time for the global economy – a quarter of the world is now in recession and world growth has halved. Exports to parts of Asia are down more than 50 per cent. The turbulence of last autumn has eased but it is too early to say that the period of global financial instability is over (Brown 1999).

The global slowdown made it 'inevitable that growth in Britain next year will be more moderate' (Brown 1998). Blair argued in 1999 that if Russia 'slides into the abyss, it will affect all of us' (Blair 1999). In 2003, Brown told a business forum that the first three years of the 21st century had 'seen the first simultaneous world slowdown for 30 years, with 10 of the world's major economies in recession in 2001 and a downturn stretching across every continent for the first time since the 1970s'. In 2001, there occurred the 'sharpest slowing in world trade growth for at least 20 years', and Brown noted that:

> Even in the world recessions of the early 80s and 90s world trade continued to grow by around 5 percent a year … for much of 2001 and 2002 world trade barely grew at all.
>
> These recent events have demonstrated once again that no country can insulate itself from the ups and downs of the world economy (Brown 2003a).

Brown concluded that the number of risks and uncertainties in 2001 surpassed any experienced during the previous 50 years: including the Iraq war, oil prices, corporate governance problems, 'emerging market crises', deflationary pressures in Japan, and fallout from the information technology bubble (Brown 2003a).

This is in striking contrast to the picture of economic dynamism painted by some commentators. Whether it is globalization or the economic turbulence that is the main driving force – in Brown's analyses the two are often conflated – he believed 'stability' and taking 'tough monetary and fiscal decisions' were required. Britain would not 'take risks with stability. And no country trading in the global economy can afford to do so either' (Brown 2003a). This emphasis on stability was not taken without consideration of the economic context, for Brown (2004b) argued that it may not be able to 'eliminate or even prevent recession but it can diminish the chances of it happening'. On top of stability, the government needed to pursue a free trade agenda in not only agriculture, but also pharmaceuticals, services, and industrial products. The third strand of response to this global economic context was 'flexibility' in product, capital and labour markets (Brown 2003a).

The international economic climate helps explain New Labour's persistent neo-liberal policies. As we have seen, the boom under Blair has not been as impressive as compared to the post-war period. Moreover, the former occurs in a much weaker and more crisis-ridden international context. Far from the growing British economy providing 'an excuse for a slowdown in the momentum of reform', Britain must 'keep up the pace of reform and liberalisation and the push for greater flexibility' (Brown 2003b). Beneath all this, there is still the belief, summed up by Blair, that higher social spending required 'the money to pay for it. We can only get the money if the economy is strong. And the economy can only become strong if we take the decisions necessary to strengthen it' (Blair 2000b).

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Chapter 8

# Political Consequences: A Fragmenting Base

## A Fragmenting Electoral Base

Labour's victory in 1997 with a 179-seat majority was the party's most convincing win in its history (Yergin and Stanislaw 1998, 364). A repeat performance at the 2001 election for a loss of just 12 seats gave Labour two consecutive landslides for the first time ever (Fielding 2003, 85). New Labour retained power again at the 2005 general election, though with its majority cut to 66.

These victories mask a considerable electoral weakness. When it won 43.2 percent of the vote in 1997, this was a lower level of support than achieved not only by Attlee in 1951, but also Wilson in 1964 and 1966 (Rawnsley 2001, 13). In 2001, Labour garnered fewer votes than when Neil Kinnock lost to John Major in 1992 (Toynbee and Walker 2005, 1). Rawnsley (2001, 504) notes of the 2001 result (41 percent) that, for every five Labour voters, there were seven people who voted for someone else and eight non-voters. At the 2005 general election New Labour lost an additional one million votes, or 5.5 percent support. Quinn (2006a, 169) summarizes the result as 'the unenthusiastic re-election of a Labour government, led by a widely distrusted prime minister, on the lowest winning plurality of the popular vote on record'. One Labour MP notes that the 2005 election was the tightest for 30 years, with the tone of post-election commentary suggesting 'that we lost' (Byrne 2005, 2).

The party has also suffered in other jurisdictions. In Europe in 2004, its 23 percent of the vote was 5 percent down from its 1999 level of support and 19 percent lower than at the 2001 general election (Mellows-Facer, Cracknell and Yonwin 2004, 11). At the May 2006 local elections, it lost over 300 councillors. In coming third with just 26 percent of the vote share behind the Liberal Democrats and the Tories, Labour recorded its worst ever local election results (*BBC* 2006a).

In terms of the general election successes, clearly the vagaries of the electoral system explain the mismatch between its voting support and the size of its majority. While Labour's 35.2 percent of the vote in 2005 won it 55 percent of House of Commons seats, the Conservatives' 32.3 percent of the vote won it only 31 percent of seats. Meanwhile, the Liberal Democrats won less than 10 percent of seats despite obtaining 22 percent of votes (Quinn 2006a, 174, 175). Predictably, there were renewed calls for electoral reform (Nairn 2005). The parlous state of the Opposition Conservative Party is another reason why discontent with New Labour has not translated into defeat (King 2006, 162). As Cowley (2005, 12) argued in the lead-up to the 2005 election, 'while people do not expect much from Labour, they have equally low, or lower, expectations of what a Conservative government would

deliver'. The Tories have been patently unable to put forward a credible alternative to New Labour.

While the disenchantment with New Labour became most visible after the commencement of its second term, the party's setbacks started very early in mid-1999 when in local elections it lost control of key Labour areas such as Sheffield. It was notable early on that New Labour was less able to mobilize low-income voters (Wattenberg 2000, 76). The perception that Labour has abandoned its roots underpins the fall in working class support at national, European, Scottish, Welsh, local and parliamentary by-elections; at the 2001 national election, there was a 13.2 percent drop in turnout in Labour seats (Seyd and Whiteley 2002, 177). Quinn describes the low turnouts in Labour seats as a 'stay-at-home protest by core Labour voters dismayed with New Labour's centrist policies' (Quinn 2006a, 174, 175). Others draw similar conclusions about the relationship between falling turnout among working class voters and the perception Labour's policies either no longer reflect their interests or are not much different from the Conservatives' (e.g. Crewe 2006, 205; Walden 2006).

In explaining Labour's more general unpopularity in its first term, King (2002, 19, 20) argues that unfulfilled expectations of improvements in public service delivery were key. Seyd and Whiteley (2002, 183) conclude that if Labour does not improve services 'then the electorate, and particularly working-class voters, is likely to punish it for this fact'. Despite the increases in spending noted in the previous chapter, 46 percent agreed in 2004 that the NHS, education and public transport were 'worse' under New Labour (King 2006, 157, 158). In March 2007, the Tories surpassed New Labour as the party favoured by the public to deal with health, education, and law and order (Brooks 2007). New Labour's aversion to orthodox social democratic policies of higher public spending (Seyd and Whiteley 2002, 10) is clearly connected to its performance on public services and welfare and the ensuing dissatisfaction.

The general revulsion towards New Labour among many party supporters was summed up in a comment by a delegate to the 2001 Socialist Education Association conference: 'For 18 years we told ourselves that one day the Tories would be out and things would get better. They have got worse' (cited in Hattersley 2001). Quinn notes that many of New Labour's policies 'provoked fierce opposition from within the Labour movement' (Quinn 2006b, 1). The cut to single parent benefits, taken not long after the 1997 election, was opposed by some 47 Labour MPs in parliament, and led to the resignation of a junior minister and four parliamentary aides. Apparently a 'few [MPs] cried. One MP confessed he had not been able to sleep the night before, "I was so ashamed"'. Meanwhile then-Deputy Prime Minister John Prescott's 'postbag groaned with livid letters from Labour supporters, some of whom were tearing up their party cards' (cited in Rawnsley 2001, 114, 115, 117).

The discontent with New Labour therefore is not simply a product of the Iraq war. King argues that support for Blair and the government had already been declining, but that in the months following the war both 'fell away sharply, never to recover'. Early examples of the electoral impact included Labour's loss of by-elections in Brent East in September 2003 and Leicester South in July 2004 (King 2006, 154, 155, 156). At the 2005 election, the backlash was strongest from Muslims and students, the most anti-war sections in the community (Quinn 2006a, 175, 176). Fraser Kemp

concedes that Iraq 'cost us votes and clearly it caused substantial concern within the Party and within the country'. He estimates that it may have lost the party between two and three percentage points of support in Muslim constituencies in particular (Kemp 2006). Labour MP Mary Creagh (2006) acknowledges that 'the war in Iraq has harmed us immeasurably in this country'. Iraq undoubtedly also played a role in the results at the 2004 European and May 2006 local elections (see above).

These local setbacks, the declines in turnout in Labour constituencies, and the more general voter discontent have not yet prevented Labour from losing power nationally. New Labour has not suffered on the scale of the SPD in Germany. This may be a product of an electoral system that favours Labour and a weak Opposition, whereas the SPD had to contend with a new rival Left Party as well as its usual conservative opponents (see Chapter 10). Yet, its problems are compounded by an increase in votes for rival parties. The hurdles of the majoritarian system are significant, but support for minor parties is rising, and Labour can no longer take left support for granted (see below). New Labour's future electoral prospects are much shakier and provided it continues, as expected, in a neo-liberal direction it will continue to lose large chunks of its base.

## Falling Membership: After 1997, is the Party Over?

Labour's membership has fallen from one million people in the 1950s to less than 180,000 in 2006 (Miliband 2005, 15; *Save the Labour Party* 2006). There was a rise in membership from 266,000 in 1993 to 400,000 in 1997 (Seyd 1998, 66). Yet the decline started almost immediately post-1997 election (Kimber 2005). In 2005, it was reported that some 200,000 members had left the party since 2000, a trend which if continued would mean that 'the last party member would be turning out the lights around 2010' (Katwala and Brooks 2005, 10). This decline continued further to 178,889 by midway through 2006. This was the tenth consecutive year of membership decline, the figure for that year representing a 56 percent drop since 1997 (Save the Labour Party 2006).

While not all membership losses can be attributed to discontent with the party's record in government, Kimber (2005) argues that the timing of Labour's membership decline is consistent with the theory that people joined New Labour in the lead-up to the 1997 election in the hope of bringing an end to the Tories' reign, but then left in disappointment at the results of Labour in government. On issues such as the market economy, taxation, public expenditure, trade union membership, wealth redistribution, and representation of workers *vis-à-vis* business, the actions of the government are often at odds with majority membership opinion (Seyd and Whiteley 2002, 59, 143, 152). A 2006 poll of Labour members found that 50 percent believed that the US and Britain were wrong to attack Iraq, and only 43 percent backed the intervention (*YouGov* 2006).

There is support for the disaffected member thesis from figures close to the party, such as former NEC member Liz Davies, who pointed to the gap between the views of members and the actions of the government on privatization, welfare, civil liberties and asylum-seekers. She claimed that long-term 'members are leaving

the Party or drifting into inactivity as a result of disgust at New Labour policies and frustration at the Party's control-freakery', and that 'the progressive, idealistic people who brought energy and ideas to the Labour Party have mostly torn up their Party cards' (Davies 2001, 157, 187, 189). Labour MP Alan Campbell (2006) argued that:

> Probably a disproportionate number of Labour Party members are public service workers who are caught up in this, you know, period of continuous change … They thought public service meant something else and we've rewritten what public service means to some extent and they don't like it. They don't like the threat to their jobs; they don't like the threat to their conditions. They believed that Labour governments would protect their jobs and their conditions and that they would put money into public services and not make any real changes. Well, that's not what we're doing.

But Campbell rates Iraq as the 'biggest single factor' in membership losses in recent years. The party 'lost activists and we lost constituency officers over Iraq and we've never got them back' (Campbell 2006). Fabian Society General Secretary Michael Jacobs relates his experience:

> Talk with any group of longstanding party members, especially over 40, and this sense of alienation will come up, and not only among leftists. If anything it is the old moderates of the party, the people who would once have been called right-wingers, who feel most confused …
>
> For some, there's a moment which tips them over the edge – vouchers for asylum seekers, the promotion of selective schools, the prospect of war with Iraq. For others, it is a dull sense that there is no longer much point. When Labour wanted to change society, it was, at heart, a campaign: it needed members. But if it just wants to manage things better, why bother? (Jacobs 2002).

Of course, as is true of the other cases surveyed in this book, membership decline is not confined to the social democratic side of politics in Britain (Allen 2006, 66). One explanation for this is that people 'lead more individualistic lives' (Kemp 2006). But this cannot explain the significant rise in party membership from 266,000 in 1993 to 400,000 in 1997 (Seyd 1998, 66). Allen (2006, 66) argues that membership declines for both major parties prior to the 2005 election were related to dissatisfaction – in the case of the Conservatives, over internal division, and in the case of Labour, over Iraq (Allen 2006, 66). The general diminution of ideological differences may also reduce the motivation for party membership on both sides (Bartle 2006, 126).

These developments matter. As was argued in Chapter 4, social democratic membership decline contributes to the volatility of politics and the rise of other parties. A 25-member defection to the Liberal Democrats in the constituency of Foreign Secretary Margaret Beckett in protest at the party's policy on Israeli attacks on Lebanon in 2006 is one small example of the way in which discontent with Labour can lead to growth in other parties (Kyodo 2006). Alternatively, many of the dropouts since 1997 may simply add to the falling turnout figures, creating in the long-term a well of despair that is susceptible to manoeuvres from the Far Right.

**Support for Other Political Forces**

Seyd and Whiteley (2002, 181, 182) warn that if Labour continues to accept inequality, support tax cuts for the wealthy, to attack trade unions, and preside over poor public services, 'it will rapidly lose its traditional supporters. Quite rationally they will look elsewhere for a party to represent their interests'. This in fact has occurred. There are indications that British voters are more willing to contemplate radical options outside the major parties. Minor parties (excluding the Liberal Democrats) and Independents together won 10.3 percent of the vote at the 2005 general election, 'the highest proportion of votes won by candidates outside the big three parties since 1918' (Quinn 2006a, 176). Arguably numerous political groups have received support from former Labour voters, including the Greens, the Scottish National Party, Plaid Cymru, the Scottish Socialist Party, the Liberal Democrats, as well as the Far Right (Osler 2002, 12). The Liberal Democrats have arguably been the main beneficiaries of discontent with New Labour to date. In addition, the Respect party has gained votes on the issue of Iraq in particular, and its politics are closest to those of social democracy. We shall therefore focus on these two parties to the left of Labour, before looking at the gains for the Far Right.

*The Liberal Democrats*

Along with anti-war party Respect, the Liberal Democrats were the chief beneficiary of Labour's leaking of votes at the 2005 election, when they received 22 percent of the vote, their best result since 1987. They enjoyed a rise of 3.7 percent in their voting share and a gain of ten seats (Quinn 2006a, 174, 176). The net leakage of votes from Labour to the Liberal Democrats was 4.8 percent (Byrne 2005, 5). One Labour MP notes that in 'most Labour constituencies, the 2005 election has left the Liberal Democrats in second place', but because the Tories represented the biggest threats in Labour's most marginal seats, he rejected the need for a shift to the left (Byrne 2005, 17). Undoubtedly under a Proportional Representation (PR) electoral system the Liberal Democrats would have enjoyed far greater gains (see above). At the 2006 local elections, the Liberal Democrats won an impressive 27 percent of the vote, beating Labour (26 percent) to second place behind the Tories (40 percent) (*BBC* 2006a).

Quinn (2006a, 177) argues that the Liberal Democrats' 'position on the Iraq War and scepticism towards public-sector reform won it 12 seats from Labour, many on large swings'. Crewe (2006, 216) notes that the Liberal Democrats 'opposed the creeping privatisation of public services, opposed the Iraq invasion, defended civil liberties in times of terrorism and wanted to abolish university tuition fees'. Then-leader Charles Kennedy spoke at the major anti-Iraq war protest in February 2003 (Allen 2006, 69).[1] Kennedy's successor as leader Menzies Campbell criticized New Labour for the fact that the 'gap between rich and poor is higher than it was under

1 In early 2006, Sir Menzies Campbell replaced Kennedy as leader. In mid-October 2007, Campbell also stepped down as leader and in November Nick Clegg won the resulting leadership election.

Margaret Thatcher', and for being 'every bit as susceptible as his Conservative predecessors to giving tax-breaks to our richest citizens at the expense of the low paid' (Campbell 2007a). At the party's 2007 conference, Campbell asked:

> How can it be fair that over two and a half million pensioners live in poverty? How can it be fair that over one and a half million families are on waiting lists for social housing? And I want to ask Gordon Brown how can it be fair that in 21st century Britain six out of ten children in Glasgow … live in poverty? (Campbell 2007b).

Thus to some former Labour supporters, the Liberal Democrats' policies appear more social democratic than New Labour's. While historically a centrist party, their policies have been to the left of Labour in recent years (Thompson 2004, 47, 48; Crewe 2006, 216). We need to recall, of course, the historical relationship between Labour and the Liberal Democrats that ended with formal divorce in 1918, a divorce lamented by Blair who as leader sought closer cooperation (Fielding 2003, chapter 2). It also has to be seen in the context of the merger between the Liberals and the Social Democrat Party (SDP) – an earlier right-wing split from Labour in 1988 – to create the Liberal Democrats (Allen 2006, 69). For these reasons it is perhaps not such a major leap for a Labour voter to support the Liberal Democrats.

None of this means, however, that the Liberal Democrats will emerge as a long-term alternative to Labour. Commentators note that the Liberal Democrats failed to capitalize fully on the discontent with the major parties and to replace, or be in a position to replace, one of them at the 2005 election (Quinn 2006a, 177; Crewe 2006, 201). While gaining a higher proportion of votes than Labour at the 2006 local elections, the Liberal Democrats gained only two additional councillors (*BBC* 2006a). Their lack of ideological and political clarity is likely to be a long-term problem for them. While they have tacked left to capitalize on the disillusionment with New Labour, their alternative is not clear. Indeed, they sound rather like New Labour when they talk of a desire to 'harness the market to deliver social justice' (Campbell 2007c). Left critics plausibly argue that the Liberal Democrats were hamstrung in their attempt to draw on left sentiment at the 2005 election by their desire to win some Tory seats (*Socialist Worker* 2005). Aside from being disadvantaged by the electoral system, in an age of political polarization trying to be a left alternative to Labour and a more liberal alternative to the Tories could be their undoing.

### *Other Left Alternatives and Respect*

Discontent in Labour circles with Blair was reflected as early as 1996 in former mining union leader Arthur Scargill's formation of a 'Socialist Labour Party' (SLP). The SLP had some 4,000 members, but it failed to gain more than five percent of the vote in elections (McIlroy 1998, 554). Its significance went beyond its numerical electoral support, however, because it had the support of a 'small though significant, number of militants in key manual unions' (Callinicos 1996, 18).

Perhaps one of the earliest signs after taking power of a willingness to support left alternatives to Labour was Ken Livingstone's victory in the London mayoral race in 2000. This was a major defeat for Blair because, as Rawnsley puts it, 'New

Labour was built on the grave of leftists like Livingstone'. Livingstone was largely stitched up in his unsuccessful preselection contest to become the Labour candidate by a voting system that gave disproportionate influence to MPs *vis-à-vis* party members. Eventually running as an Independent, Livingstone won in the end 58 percent of the mayoral vote, with the Labour candidate Frank Dobson coming third (Rawnsley 2001, 351, 369). According to NEC member Liz Davies (2001, 139), some Labour members resigned to give their support to Livingstone or the London Socialist Alliance.[2] While Livingstone rejoined the party in 2004 and became its official candidate for the mayoralty, this was still a defeat for New Labour, which had to concede to a victorious Livingstone.

It was noted earlier that, next to the Liberal Democrats, the anti-war Respect party had been among the biggest beneficiaries of opposition to New Labour's policy on Iraq. More generally, it sees itself as a left alternative to New Labour, and of the competing minor parties has politics closest to those of traditional social democracy. Established in 2004, Respect describes itself as a 'radical political alternative to the rightward march of new Labour and the other establishment parties' that hopes to 'speak for millions who, through the betrayals of New Labour, have lost their political representation'. It aspired to increase public ownership of utilities and other sectors of the economy, to raise taxes on corporations to fund public services, and to more broadly tackle corporate power in solidarity with the AGM (Respect 2004, 3, 4).

For a new party, Respect enjoyed some solid gains. At the 2005 election, Respect's candidate George Galloway – an ex-Labour MP expelled for comments made against the Iraq war in 2003 – managed to defeat the Labour candidate in Bethnal Green and Bow (Quinn 2006a, 176). This was reportedly the first time a party to the left of Labour had won a seat in parliament since the war (Galloway 2005). Furthermore, the Respect candidate almost won the seat of Birmingham with 28 percent support (*Socialist Worker* 2005). Because of its opposition to the Iraq war, Respect received high votes in other areas with large Muslim populations, including 20.6 percent of the vote in East Ham, 19.5 percent in West Ham, and 17.2 percent in Poplar and Canning Town (King 2006, 174).

These gains must be put in perspective, for as Allen (2006, 72) puts it, Respect came second in three constituencies with large Muslim populations but in areas 'with small Muslim communities, it fared abysmally'. Yet, Allen neglects Respect's impressive performance at the 2004 European election, where it received 250,000 votes, making it the seventh most popular UK party (*BBC* 2004a). Also, Allen's comment preceded the 2006 local election results, where Respect became the main opposition party in Tower Hamlets, gaining 11 seats and defeating the Labour council leader in the process (*BBC* 2006b). In May 2007, it had councillors elected in Sparkbrook, Shirebrook, and Preston Town Centre, and came second in seven other wards (*Respect* 2007a). In Preston Town Centre, the victorious Respect candidate attributed the victory to New Labour's unpopularity on 'the Iraq war, on the NHS and on privatisation' (*Respect* 2007b). At a council by-election in Stonebridge in

2 An initiative of the Socialist Workers Party (SWP), the Socialist Alliance can be seen in part as the forerunner of Respect.

September 2007, Respect came third, ahead of both the Tories and the Greens, but behind Labour and the Liberal Democrats (*Respect* 2007c). Respect also boasts of defections from Labour politicians, including Wayne Muldoon, a former Labour councillor for 12 years who joined Respect in February 2007. It has also poached councillors from the Liberal Democrats and Plaid Cymru (Respect 2007d).

According to Callinicos (2005), Respect's success was based on its emergence from the anti-Iraq war movement and its ability to use that issue to 'drive a wedge into Labour's base'. The question, however, is whether Respect can hold on to those disaffected Labour voters and provide a viable long-term alternative once the Iraq war has declined in salience. It is still very small. Respect is also a very diverse coalition combining revolutionary Marxists with, among others, traditional social democrats and some Muslims (Callinicos 2005). Thus its ability to stay united will also be a key determinant of its success in the future.

### *The Far Right*

While some forces on the left have benefited from New Labour's abandonment of social democratic politics, there is evidence that Far Right parties such as the British National Party (BNP) and United Kingdom Independence Party (UKIP) have been boosted by Labour's abandonment of social democratic politics. The BNP – 'the most viable Radical Right alternative to mainstream politics' (Sykes 2005, 150) – supports the halting of immigration, the provision of financial incentives to repatriate non-white immigrants, and openly seeks Britain's return to being a 'white nation'. It also supports elements of economic nationalism, such as trade protection and withdrawal from the EU, and the standard Far Right populist ravings about crime and national service are found among its policies and rhetoric (Sykes 2005, 136, 137). Research shows that it is characterized by 'violence, racism and fascist sympathies' (John, Margetts, Rowland and Weir 2006, 12).

Unlike many other Western European countries, Britain has never elected a representative of a Far Right party in a general election (Ignazi 2003, 1). Yet, after reflecting on the BNP's 2.87 percent of the vote in the party list section of the London Assembly election in 2000, and dramatically improved results in local elections in 2002–2003, Sykes (2005, 151) concluded that the BNP 'achieved more in the first three years of the twenty-first century than the Radical Right as a whole achieved in the previous seventy'. The BNP improved its performance at the 2005 general election by 0.5 percent to achieve 0.7 percent of the vote and become the eighth most popular party. But this is misleading. Allen (2006, 72) notes that it 'came third in Barking, and narrowly missed third spot in six other constituencies troubled by racial tensions'. As well as recording 16.9 percent and almost 10 percent respectively in the working class constituencies of Barking and Dagenham at the 2005 election, the BNP was victorious in a council by-election in September 2004 with 52 percent of the vote (Lowles 2005). Across the 116 seats it contested in 2005, the BNP won 4.3 percent support, and in 33 seats it won more than 5 percent of the vote (John et al. 2006, 7).

The BNP has been most effective at the local level. It won its first seat in 1993 in Millwall, South London (Merrick 2006). Its candidates averaged 8.4 percent of the

vote in 1994 (Ignazi 2003, 183). A significant breakthrough for the BNP came when it gained an additional 27 councillors at the May 2006 local elections (BBC 2006a). This gave it a total of 53 seats across England. According to analysis by anti-fascist group Searchlight, the BNP prior to these elections were within 5 percent of securing 70 seats (Dodd and Wintour 2006). Much of the Far Right's success is confined to London. While research for the Joseph Rowntree Reform Trust (JRRT) in 2005 found that 24 percent of Londoners would consider voting for the BNP, the figures for England and Britain were still high at 20 percent and 17 percent respectively (John, Margetts, Rowland and Weir 2005, 11, 13). John et al. (2006, 5) argue that, contrary to conventional wisdom, Britain is not immune from the rise of a Far Right force such as the BNP, which was 'in a strong position to take advantage of this potential support in forthcoming elections'. At the same time, the BNP remains the most unpopular party in Britain (see John et al. 2006, 8), which, together with the evident support for parties on the left such as Respect and the Liberal Democrats, is indicative of polarization.

While the BNP has been seen as more in tune with the sentiments of Conservative voters (Lowles, cited in Sykes 2005, 138), it is also the case that 'it is in Labour's traditional heartlands that the BNP has made most inroads' (John et al. 2006, 7). Sykes (2005, 139, 140) notes of the 2001 election result: 'The hopes of 1997 had vanished, to be replaced by even greater resignation, but the Conservatives were never seen as a realistic alternative.' BNP leader Nick Griffin has expressed his ambition for the party to become 'the focus of the neglected and oppressed white working class', while one BNP organizer maintained that the party was 'more Labour than Labour' (cited in John et al. 2006, 7). Research also revealed that support for the BNP was highest in London among 'semi and unskilled manual' voters and 'skilled manual' voters (John, Margetts, Rowland and Weir 2005, 18, 19, 20). Respect MP George Galloway (2006) claims that Britain no longer has a labour party 'that serves working people'. While Respect was challenging New Labour from the left for its failure to serve these people, the BNP was doing so from the right: 'As the former car workers of Dagenham and the West Midland, mill-hands in Lancashire and miners in Yorkshire watch their rulers cavort with the undeserving rich, it's little wonder if some are prey to the patter of [the BNP].' BNP leader Nick Griffin's view of the 2006 local election results was that people wanted 'to kick the Labour Party really hard and we're the politically incorrect way to do it' (cited in Oborne 2006). BNP campaign organizer for London Richard Barnbrook claimed that Barking Labour MP Margaret Hodge had abandoned Ford workers who had lost their jobs in Dagenham, effectively telling them to obtain work in Tesco: 'These are professional fitters and designers, and she's telling them to go and stack shelves' (cited in Oborne 2006). Hodge herself stated in April 2006 that eight out of ten of her constituents in Barking were considering voting for the BNP, and that this was because Labour 'hasn't talked to these people … Part of the reason they switch to BNP is they feel no one else is listening to them' (cited in Dodd and Wintour 2006). John et al. (2006, 28) write that New Labour needs to 're-engage with their former supporters who have deserted them'.

Further evidence of the link to disillusionment with New Labour was provided by Dagenham MP and former deputy political secretary to Tony Blair, Jon Cruddas,

who argued that New Labour's policies and electoral strategies have been focused tightly on middle-class swinging seats, which acted as 'a barrier to a radical emancipatory programme of economic and social change'. Of course, one can argue about whether it is the electoral system or more fundamental economic pressures and constraints that prevent the development of such a programme, but he correctly points out that Labour's neglect of working class voters is central to the problem: 'A widespread disillusionment with all the traditional political parties is found but this is especially directed at Labour who no longer represent their interests.' He argues that the JRRT research cited above links the popularity of the BNP to 'the material realities of the community – stretched public services especially in terms of public housing, economic insecurity and pessimism for the future'. Furthermore, it was a combination of 'the long term legacy of poverty and underinvestment and the sheer scale of contemporary change that has created such a rich seam for the BNP' (Cruddas 2005, 22, 23, 24).

Research by John et al. (2005, 11) found that while immigration was the key issue in Dagenham, it was also 'the symbol for many other issues such as health, education and housing'. Elsewhere, they wrote that the BNP 'articulates, albeit in a perverted and exploitative manner, genuine economic and social concerns within the communities where they establish bridge-heads'. The areas in which the BNP could most expect to gain were ones characterized by 'economic decline … stagnant then falling property values in formerly "decent" neighbourhoods; neighbourhood abandonment; and cuts in familiar and mainstream public services' (John et al. 2006, 9, 26).

There is no guarantee of success for the Far Right, which is well-known for its tendency towards internal division (Sykes 2005, 143). The response of the left will continue to be crucial: one reason for the Far Right's lack of success in Britain has been the willingness of anti-racist movements to confront it and contest its legitimacy (Ignazi 2003, 186). Over a longer term, however, it will be important for the left to articulate a clear, persuasive and viable class alternative to neo-liberalism and the despair and disillusionment it creates. Respect has attempted to do this by announcing its intention to challenge the BNP in Barking and Dagenham (*BBC* 2007a). Whether or not this succeeds, it is a step in the right direction.

## Conclusion

This discussion has shown that there have been numerous factors involved in the neo-liberalization of British social democracy. We have stressed, however, the changes in economic conditions in the 1970s and the impact this had on the Labour government at the time. This largely structuralist account should not be taken to mean that the interventions of key figures such as Blair, Brown and others were not influential in the policy direction of the party. Yet, important steps had been taken towards accepting neo-liberal policies before these individuals were in leadership positions. The weakness of the British economy compared to the post-war period, and the fragility of the global economic context, prevent a return to traditional social democratic politics. Furthermore, it will be difficult for Brown to return to a rhetoric

of social justice and inequality given his government's inability to achieve much in these fields in its more than 10 years in office (Moore 2007). Though considered more 'Old Labour', Brown was architect of many New Labour policy moves (Crewe 2006, 209, 210). There will be some stylistic changes, aimed at 'defining' the Brown Prime Ministership, but the substantive direction will remain the same.

Labour may be better placed compared to some of its social democratic counterparts, given that it has won three straight general elections. This is in part a product of the electoral system and a weak opponent in the form of the Tories. There are, however, cracks beneath the surface of its electoral success, evident in low turnouts in Labour seats and derisorily low levels of support disproportionate to its dominance in the House of Commons. At present, there is not a competitor to New Labour – as arguably the Left Party is in relation to the SPD in Germany (see Chapter 10) – but this may change in the future. If such a party does not emerge, the opportunities for the Far Right to succeed will be considerably enhanced.

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# PART 4
# The Death of Social Democracy in Germany

The SPD's assumption of federal power in 1998 after sixteen years in Opposition might have been expected to usher in a new era of promise and revival. Instead, the SPD's ascension to power looks in retrospect to have been the precursor to a profound crisis. Members resigned en masse, and an effective split resulted in the formation of the rival Left Party. The SPD suffered record low approval ratings in government, and after just scraping back into office in 2002 it lost almost every local and Länder election before proceeding to lose the Chancellorship in 2005. Unlike New Labour, the SPD has not been protected by the electoral system, which is why some commentators contrast the relatively happy experience of Blair with his downtrodden Third Way counterpart, Gerhard Schröder (Knigge 2005). This ignores the problems of New Labour (see previous chapter), but the SPD's problems are indeed grave.

This case study argues that these political setbacks are a product of discontent with the SPD's labour market and welfare reforms in particular. The SPD's persistence with its reforms – even when it was clear that these were harming it electorally – is explained by, in particular, the acute economic pressures it has faced post-unification. The recent economic context has been very different to that of Australia and Britain. This crisis in the 1990s came on the back of the broader economic decline since the 1970s that has damaged social democracy elsewhere, and which the SPD in government reacted to swiftly by abandoning its reform plans and instituting some neo-liberal policies.

We begin in Chapter 9 by briefly charting the SPD's political journey leading up to the embrace of the *Neue Mitte* in 1998, followed by an account of the neo-liberal direction of the party in office and a discussion of the factors driving this approach. In Chapter 10 we look at the political consequences, including an electoral backlash, declining SPD membership, growing electoral support for the new Left Party, and a boost to the Far Right. While the analysis largely concludes at the 2005 federal election, we make some prognoses about the likely course of events based on the early stages of the Grand Coalition.

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# Chapter 9

# Rescuing *Standort Deutschland*

The political crisis generated by the SPD's recent record in government is intelligible only in the context of its history as a working class party. The 'reform or revolution' debate had not yet been settled when the SPD sprang in 1875 from the merger of the All-German Workers' Association (ADAV) and the Social Democratic Workers' Party (SDAP) (Breuilly 1987, 10, 11). As we saw earlier, Marxism's influence on the SPD is often overstated, and the influence that it did have coincided with an emphasis on parliamentary practice (Tegel 1987, 18). By the beginning of WWI the SPD was transformed from 'a revolutionary, proletarian party strictly opposed to the bourgeois class state to a kind of liberal, working class party content with working for reform and political democracy within the framework of the existing state' (Waldman 1958, 27, 28). That the SPD was ever a revolutionary party, though, is questionable. Then party secretary Ignaz Auer insisted in 1907 that the SPD 'has never been a party of revolution, nor is it or does it … wish to become so today' (cited in Potthoff and Miller 2006, 47). The rhetoric of Marxism and class struggle punctuated the first half of the Erfurt Programme of 1891, but the other half set out a list of reformist demands, which, while not necessarily in conflict with revolutionism, nevertheless were seen as representing a contradiction (Tegel 1987, 21). Furthermore, while even the 1925 party programme 'contained loud overtones of Marxist class struggle', the daily activities of the party leading up to WWI were highly reformist (Potthoff and Miller 2006, 50, 68, 113). The SPD's capitulation to the clamour of nationalism and war – as opposed to internationalism and class struggle – is well-known (see Eley 1987). The SPD's reformist character was also on display after the war in the November 1918 revolution. Then-leading social democrat Philip Scheideman was pushed into proclaiming a republic for fear of Marxist Karl Liebknecht proclaiming a 'socialist republic' (Harman 1997, 46). Social democrats opted for bourgeois democratic reforms over socialism, and aligned themselves with former elements of the imperial regime to crush socialist revolution (Potthoff and Miller 2006, 81; Padgett and Paterson 1991, 8).

Yet, social democracy is not on trial for eschewing the revolutionary road, but rather for its abandonment of social democratic reformism itself. Like their brethren elsewhere, the SPD's success in implementing reforms is limited to a very brief period. The SPD achieved little in the Weimar years before being vanquished with the triumph of the Nazis in 1933 (see Potthoff and Miller 2006, 92, 100, 102, 106). But as part of a Coalition with the FDP [*Freie Demokratische Partei*][1] between

1 This followed the break-up of a 'Grand Coalition' with the Christian Democrats from 1966–1969.

1969–1982, the SPD implemented significant measures. Potthoff and Miller list the reforms of which the SPD could boast at the 1976 election:

> [R]elatively high economic stability; a tight social safety-net with significant improvements, such as flexible retirement age, guaranteed works' pensions, pension schemes for the self-employed, health insurance for farmers, a new youth employment protection law, revision of child benefit, adjustments and increases in war victims' pensions, rehabilitation and special employment rights for the severely handicapped; extension of co-determination; new married couples' and families' legislation; the initiation of reforms to paragraph 218 of the penal code on abortion … (Potthoff and Miller 2006, 236).

Real wages rose by 30 percent and pensions by 43 percent (Birchall 1986, 203). Of course, inequality was stubborn and social justice remained 'a distant ideal' (Potthoff and Miller 2006, 260). Yet, the reforms were significant and stand in marked contrast to what came after.

While the strength of the post-war boom (see below) enabled such reforms to be carried out by the SPD – and by the Christian Democrats before them (Conradt 2006, 12, 13) – the SPD at the same time was moving rightwards. Its adoption of the Bad Godesberg Programme in 1959 saw the SPD distance itself from Marxism (cited in Carr 1987, 196, 197). It espoused as 'much competition as possible – as much planning as necessary' (cited in Andrews 1966). Nationalization of the means of production and economic planning were effectively renounced (Conradt 2005, 132). Yet, the Programme still argued that the 'task of an economic policy' is 'to contain the power of big business'. Public ownership was something 'which no modern state can do without'. Measures were needed to 'ensure that an adequate part of the steadily growing capital of big business is widely distributed or made to serve public purposes'. The 'essence of the Socialist aim' is to 'abolish the privileges of the ruling classes' and ensure 'freedom, justice and prosperity for all' (cited in Andrews 1966, 191, 192, 197). In contrast, as Potthoff and Miller observe, the 'words 'socialism' and 'socialist' are barely used today by German Social Democrats' (Potthoff and Miller 2006, 14, 199). Moreover, there is no desire to redistribute wealth or constrain the power of capital.

The argument that the current policy direction is a product of something much later than Bad Godesberg is based on more than just rhetoric. The social reforms listed above came *after* Bad Godesberg. Like other social democratic parties, the turning point in the engagement with neo-liberalism can in fact be traced to the collapse of the post-war boom in the 1970s, in response to which the SPD in government adopted numerous measures that ran counter to the aforementioned reforms (see below). As the downturn wore on, there were ructions within the Coalition over how to respond, and in 1982 the FDP and Christian Democrats decided on a constructive vote of no-confidence in then SPD Chancellor Helmut Schmidt, relegating the SPD to Opposition for sixteen years.[2]

The policy direction commenced in the later years of office was continued in Opposition. At the Berlin Congress in December 1989, the new Programme largely

2 On top of the economic policy disputes, there was also disagreement over the stationing of new North Atlantic Treaty Organization missiles in Germany.

met the aspirations of those on the SPD Right to enunciate 'a more positive appraisal of the market economy and a willingness to embrace structural economic change' (Padgett 1993). The SPD's political trajectory took a further rightward turn towards market policies in the mid-1990s when the SPD 'increasingly embraced a neo-liberal agenda' (Jahn and Henn 2000, 32). The term 'democratic socialism' was central even to the Berlin Programme, but completely absent from the 1994 and 1998 election platforms (Jun 2003, 74).

Constituting a further step in the direction of neo-liberalism was the adoption in the lead-up to the 1998 election of the *Neue Mitte* [New Centre] strategy, which involved support for smaller government, the fostering of close relations with business leaders, and an acceptance of the political constraints of globalization (Meyer 1999, 27–30). Chancellor candidate Gerhard Schröder had borrowed from the Third Way electoral strategies of Tony Blair and Bill Clinton by promising not different policies, but adjustments to existing ones (Braunthal 1999, 32, 38). Schröder attempted to shrug off the party's reputation for 'big government tax-and-spend programs' (Conradt 2003, 200). Like Blair, it was clear that nothing would thwart Schröder's social democratic reform plans – he had no such plans to begin with.

## The *Neue Mitte* in Practice

At the September 1998 federal election, all parties of the incumbent government were ousted for the first time in German history (Conradt 2003, 200). The SPD enjoyed its second best post-war result in parliamentary elections (Jun 2003, 66). It increased its vote by 4.5 percent (up from 36.4 percent to 40.9 percent) and, combined with the 6.7 support for Alliance '90/The Greens [*Bündnis 90/Die Grünen*], it enjoyed sufficient support to govern as the leading party in a Red-Green coalition (Braunthal 1999, 44).

In its first term (1998–2002), the coalition commenced a programme of neo-liberal policies along the lines described in Chapter 2. In contrast to the social democratic reforms cited earlier, there were virtually no noteworthy reforms under the Red-Green governments. Although it did reverse some of the austerity measures and labour deregulation undertaken by the Helmut Kohl Christian Democratic government (Harlen 2002, 77), its first term neo-liberal policies included cuts to welfare spending, reduced corporate tax rates, the abolition of capital gains and wealth taxes, and an effective reduction in the pension rate (Padgett 2003, 45; Kitschelt 2003, 137; Conradt 2003, 230). In the case of the latter, Schröder (1998b) proudly stated that in 1998: 'For the first time a German Government is now going to use government funds to reduce non-wage labour costs.' Schröder's revival of the quasi-corporatist 'Alliance for Jobs' from the previous government might have held some appeal for 'traditionalists' in the party, but its 'main goal was nevertheless to modernize the economy on neo-liberal terms' (Reutter 2003, 143).[3] The Coalition's

3 The Alliance involved regular meetings between the Chancellor, key ministers, unions and employer representatives to devise solutions to unemployment and other economic

regressive personal and corporate tax cuts foreshadowed in 2000 amounted to, boasted Finance Minister Hans Eichel (2000), 'one of the biggest and most far-reaching tax reform packages in the history of the Federal Republic of Germany'. These were of some benefit to lower income earners. But, the cuts for top income earners and business, which angered many social democratic supporters, reflected the government's desire 'to strengthen Germany as a base for economic investment' (Potthoff and Miller 2006, 382).

> A tangible reduction of the tax burden on company profits will render German enterprises much better equipped to compete on international markets, promote equity capital formation in the economy, create an attractive environment for domestic and foreign investors and will, above all, have a lasting impact on the labor market (Eichel 2000).

These tax cuts were based on the neo-liberal notion that greater social inequality generates employment and investment (Eissel 2002, 147–152). While there was little sign of a positive investment effect, there was evidence of greater inequality (Hubner 2004, 111, 112). As SPD parliamentarian Lars Klingbeil (2005) notes, 'even with a left wing Government, the gap [between rich and poor] is growing'. Like social democratic parties elsewhere, the SPD has abandoned the core social democratic ambition of reducing inequality. Recall Bad Godesberg's pledge to 'abolish the privileges of the ruling classes' and ensure 'freedom, justice and prosperity for all' (see above). Schröder argued in 2005 that 'for a very long time there was sufficient room for redistributing wealth. This is no longer the case … ' (Purvis and Boston 2005). Moreover, the Red-Green government had 'nothing against the formation of elite groups' (Schröder 1998b). Schröder gave ground to the notion that wealth inequality reflects an unequal distribution of talent and ability when he claimed that people become members of 'an elite [not] because of your parents' background but on the strength of your own ability. Elites emerge from equal educational opportunities and from what the individual makes of it on his or her own responsibility' (Schröder 1998b).

Hand-in-hand with a tolerance of inequality that required no government intervention to remedy it went an approach that reduced the role of the state to 'its core functions' (Schröder 2000). Economic growth and employment would not be generated by state intervention, but by supply-side measures such as 'consolidating the federal budget and reforming business taxes' (Schröder 1999). The level of state investment as a proportion of GDP did decline from 2.7 percent in 1994 to 1.8 percent under Schröder in his first term (Eissel 2002, 153). Public spending between 1998–2005 fell from 48 percent to 47 percent of GDP, although government debt did increase (Hough and Sloam 2007, 34). The role of government under the SPD was illuminated in more rhetorical terms by SPD candidate for the North-Rhine Westphalia election in 2005 Peter Steinbrueck, who insisted that 'politics cannot create jobs'. He apparently went as far as producing posters adorned with the slogan, 'I am not promising jobs' (cited in Henning 2005). With the reduced role for government went greater emphasis on the market. Schröder (2000) argued that

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problems. In March 2003, the Alliance effectively collapsed after the failure to reach consensus (see Zohlnhöfer 2004, 111, 112).

people should 'rely more on private initiative and responsibility, rather than hoping that the state will sort everything out' (Schröder 1999). One of the ironies of party leader Franz Müntefering's well-publicized 'locusts' speech in 2005 (see below) was that it targeted investors who had bought some of the state firms and assets privatized earlier by the Red-Green Coalition (Engelen 2005, 57).

A more individualist ethos was evident in the Government's desire to 'encourage people to assume greater responsibility for their actions. This is what we mean by the New Centre' (Schröder 1998b). Whereas many local party organizations in 1999 hoped for greater wealth redistribution, the party leadership spoke of the attributes of 'independence', 'taking responsibility for oneself', and 'personal initiative' (cited in Potthoff and Miller 2006, 373). The Hartz labour market reforms,[4] implemented just prior to and following the 2002 federal election, involved not only the privatization of the state-run employment agency, but also reductions in unemployment benefits and the length of time benefits could be received, and regulations requiring the unemployed to accept any work offered to them (Henning 2006; Olsen 2007, 207). The implication was that the unemployment crisis was a product of personal failings rather than a stagnant economy, the answer for which could be found only in supply-side measures such as education or training.

Of a piece with this political direction was Schröder's support for the Third Way, made official in a joint publication with Tony Blair (Blair and Schröder 1999). One SPD politician described it as a 'provocation' amongst some of the party's 'core supporters' (Nietan 2005). Even if the paper had little lasting impact (Ferner 2005), the influence of the thinking displayed in it was evident as late as 2005 in an SPD document, *Policies for the Centre Ground*, which argued that '[t]he challenges of today and tomorrow cannot be met with yesterday's formulae' of government intervention. Governments 'should not regulate local tasks that can be carried out by social groups and by individuals on their own responsibility'. The state should take on at most a 'guiding function' (SPD 2005).

A different kind of indication of the neo-liberal stripe of the Red-Green Coalition was provided by the departure of Oskar Lafontaine in early 1999 from the Cabinet, the Bundestag and the party leadership. The former finance minister resigned essentially because of differences between himself and Chancellor Schröder, who publicly accused the former of supporting an anti-business policy (Lafontaine 2000, 152). As one commentator writes, Lafontaine 'advocated the kind of left-Keynesianism long associated with social democracy' and wanted to 'develop progressive, expansionary economic policies' (Allen 2007, 356). Lafontaine's radicalism should not be overstated (see Dostal 2000). But his policies were sufficiently heretical to have him replaced by the 'pro-business and fiscally orthodox' Hans Eichel (Lees 2000, 127). One SPD parliamentarian, who was not a supporter of his, argued that with the loss of Lafontaine went the 'social conscience of the party', which is 'a problem for us' (Kastner 2005).

4 The labour market reforms were the product of a commission headed by Volkswagen's personnel director, Peter Hartz. The most controversial of the Hartz reforms was the fourth package of proposals known as Hartz IV, which included 'among other things, shortening the period in which the unemployed could receive full benefits as well as cutting the gross amount that claimants would actually receive' (Olsen 2007, 207).

**The Red-Green Coalition's Second Term (2002–2005)**

The Coalition was returned at the 2002 federal election to the surprise even of party members (Camerra-Rowe 2004, 8). The SPD's share of the vote fell to 38.5 percent – roughly equal to the Christian Democratic Union (CDU)/Christian Social Union's (CSU) vote – from 40.9 percent in 1998. The SPD moved even further away in its second term from traditional social democratic politics (Patton 2006, 218). As one SPD politician suggested, 'you saw no change and the people were disappointed because they had the feeling [that] we give this Chancellor, this Government, a second chance and they don't take it, they do business as usual. They did not really change their politics' (Nietan 2005). Indeed, the centrepiece of the government's second-term programme, the *Agenda 2010* welfare and labour market reform package announced in March 2003, constituted 'the most drastic cuts in social welfare programs since World War II' (Braunthal 2003, 2). The Agenda included, *inter alia*, legislation to limit the length of time for which an unemployed person could receive benefits; liberalization of the law on wrongful dismissal for small firms; the addition of a 'sustainability factor' to pension provisions that took into account demographic changes; a rise in the retirement age; and employees taking on some of the cost of sickness benefit (Potthoff and Miller 2006, 404). The Agenda policies, as we shall see in the next chapter, were justified partly by the SPD in terms of their ability to improve Germany's attractiveness to investors. Schröder (2003) declared that the policy would lead 'the way for the reduction of nonwage labor costs'.

Whatever impact it had on investors, *Agenda 2010* provoked a public backlash (see next chapter). Yet, the SPD maintained that the reforms were unavoidable and ongoing. Müntefering was adamant that 'our policies are right … we want to pursue them and will pursue them' (*BBC* 2004b). Schröder was unmoved by the street demonstrations in 2004: 'Showing sensitivity and trying to relieve people's fears does not mean changing, it means explaining why what we are doing is necessary' (*BBC* 2004c). Following defeat in elections in North-Rhine Westphalia in May 2005 (see next chapter), Schröder began his push to bring forward the September 2006 federal election by one year with a call for public support for his reforms (Schröder 2005).

The SPD did make some token efforts in 2005 to limit the electoral damage. Chief among these was party chairperson Franz Müntefering's speech in April in which he castigated financial investors who 'remain anonymous, have no face, fall like a plague of locusts over our companies, devour everything, then fly on to the next one' (cited in Corbett 2005). Other electoral tactics aimed at regaining lost support included Schröder's call for military action against Iran to be taken 'off the table' by Europe and America (Furlong 2005a). In launching the party's 2005 federal election manifesto, Müntefering claimed that the party's 'prime focus for these years will be on employment, security and a life with dignity for all'. The accompanying policy changes included a 3 percent increase in taxes on people earning above 250,000 Euros per year (US $296,700), and the introduction of minimum wages in industries where there was no collective bargaining (Hessler 2005).

It was patently obvious, however, that these initiatives were little more than electoral gimmicks. As one SPD parliamentarian remarked, voters might be inclined

to think that the 'locust' comments were 'just for the election campaign' (Kelber 2005).[5] Another SPD politician maintained that Müntefering's comments did not signal a return to the 'traditional' politics of the SPD (Kastner 2005). *The Financial Times* accurately predicted that the SPD would find it difficult to persuade voters of its left-wing credentials 'after two years spent endorsing pro-market reforms' (Benoit 2005, 16).

## The Neo-liberal Consensus

As is true of the other country case studies, some of the political consequences described in the next chapter flow from a growing perception of elite consensus on the future of Germany. Evidence from the German Election Study in 1998 found that close to 42 percent of voters saw no real difference between the parties (cited in Pelizzo 2003, 80). In 2000, a poll found that 61 percent could not distinguish between the policies of the two major parties, while only a fifth of respondents thought that there was more social justice under the SPD government (cited in Braunthal 2003, 3). Seeleib-Kaiser characterizes the Red-Green Coalition's first term social policy record as a 'continuation and partly as an acceleration' of the previous government's approach (Seeleib-Kaiser 2004, 140).

Schröder, in true Blairite fashion, claimed that the distinction was no longer between social democratic and conservative economic policy but between modern and old (cited in Zohlnhöfer 2004, 119). SPD parliamentarian Uta Zapf (2005) maintained that the politics of liberals and conservatives are 'more market oriented'. She concedes, however, that convergence has 'occurred in certain areas', which means that rather than social democrats making no cuts to the welfare state, 'the difference is what we do, where do we cut, [who] do we ask to take the burden'. Elke Ferner (2005) suggests that because of the relative decline of the industrial working class and the more comfortable position of modern workers, it is 'a little bit more difficult to tell the people why you need [a] social democratic party and what are the differences between the conservatives and the social democratic parties'. In order to win a third successive federal election, she argued, 'I think we have to make clear what are the differences between us and the others', and the SPD needed to implement some 'projects' that would allow 'all the people' to 'see the differences'. Dietmar Nietan argued that after many years of criticizing the conservatives for prioritizing economic efficiency over social justice:

> [In] the end we did the same, not so hard but in the same direction and I think that's disappointed especially the people who thought … that social democrats guaranteed them their standard of welfare of lifestyle in our society and all the people who are the so called losers of the modernization [process].

5 The reference is to the important North-Rhine Westphalia election in May 2005, whose loss by the SPD set in train the process of early federal elections in September 2005.

According to Nietan, 'more and more people' think that 'the two big parties' are 'only thinking of their own, they do what they want, they don't hear what I want, they are not interested in my [the voters] situation' (Nietan 2005).

For the first time in over 50 years, the combined vote of the major parties at the 2005 federal election fell below 70 percent as voters opted for more radical options (Helms 2007, 226). Perceptions of an elite consensus on the broad direction of German politics and society contributed to the SPD's political crisis. Given that the former Kohl government's policies were unpopular, and that the SPD followed largely in that government's footsteps, it is not surprising that it, too, quickly lost support.

## Explanations

This raises questions about what factors led the SPD to implement these reforms and continue with them despite their unpopularity (see next chapter). A traditional Marxist approach to social democracy, as we saw earlier, is important to understanding the crises in which social democratic governments are engulfed as they try to both appease their traditional constituents and institute policies favourable to capital accumulation. Previous periods of SPD government have been characterized by supporters' disappointment with their leaders' conservatism (Braunthal 1994, 13, 14, 20; see also Potthoff and Miller 2006, 101). This historical perspective serves as a guide to understanding the problems experienced by the Red-Green government, but fails to give adequate account of the specific pressures that have led to the embrace of neo-liberalism in recent years. The SPD is subject to similar pressures as social democrats elsewhere (see Chapter 3). But there are also factors unique to the political context in which German social democracy operates, such as the institutional constraints referred to collectively as *Reformstau*, but also and more importantly the deep economic problems post-unification.

### *Electoral Factors*

Commentators often point to the fact that the electoral base of the SPD has shrunk with the decline in the German industrial working class (Potthoff and Miller 2006, 355). This would be expected to push the SPD to seek supporters from different constituencies. It was widely believed in the late-1990s that the SPD needed to adopt Third Way style policies in order for it to be electorally successful (Camerra-Rowe 2004, Padgett 2003, 39). A related argument is that, because of the more prosperous position of modern workers, it is 'a little bit more difficult to tell the people why you need [a] social democratic party and what are the differences between [us and] the conservatives' (Ferner 2005).

Electoral pressures can, however, be fairly quickly dismissed as an explanation for the policy record of the SPD. The strategy of targeting voters beyond the industrial working class goes back as far as the 1920s (James 1987, 149). This has obvious difficulties in explaining a shift towards neo-liberal policies that is at most only as recent as the mid-1970s. Furthermore, the popularity of Third Way or *Neue Mitte*

policies is in grave doubt. As we shall see in the next chapter, it was discontent with the ruling Christian Democrats that brought the SPD to power in 1998, and far from the public being enamoured with the *Neue Mitte*, there was a clear electoral backlash against it, particularly from 2002 onwards. The overwhelming evidence – successive local, State, and European electoral setbacks, low public opinion ratings, and large demonstrations – suggested that federal electoral oblivion was all but imminent for the SPD. In this context, it seems beyond doubt that its persistence with its neo-liberal reforms was not based on expectations of electoral gain. Further proof of this was the token left-wing gestures designed to restore public support in 2005 (see above).

*Globalization*

A resolution adopted by an SPD congress in 2003 stated that globalization and a single European market were 'facts of social and economic life' that would force Germany to 'modernise our social market economy or we will be modernised by the untrammelled forces of the market that will thrust social considerations to one side' (SPD 2003, 4, 6). Schröder himself described the *Agenda 2010* policy as a 'response to the increasing influence of globalization on our economy' and as designed to bolster Germany's status as 'an economic force to be reckoned with' (Schröder 2004, 3). Schröder's claim that it was not possible any longer to redistribute wealth (see above) was justified by reference to 'globalization and the economic changes it has caused, and second, a long-term development that affects the aging of the German population' (Purvis and Boston 2005).

Of these two factors, it is clear that globalization poses a much bigger challenge in the eyes of social democrats. Schröder emphasized three facets of globalization that 'restricted the nation-state's scope for action': financial market deregulation, greater mobility of capital, and intensified competition between 'business locations'. While he believed that the restriction was exaggerated, it nonetheless had the effect of 'penalizing bad policies and rewarding good ones' (Schröder 1999). One SPD deputy described globalization as the 'biggest challenge' facing social democracy. We are no longer 'living in a world where a nation state can decide on [the] distribution of income'. If 'social democracy is no longer a force for equity' then we could be witnessing 'the end of the classical appearance of social democracy' as an agent of redistribution (von Weizsäcker 2005a; 2005b). Uta Zapf (2005) refers to a globalization-induced Catch-22: capital flight renders traditional social democratic policies unviable but 'if you lower the taxes to keep the firms here, [then] your finances are under pressure, [and] you have to cut into the social systems'. Dietmar Nietan argues that the dilemma of globalization is that it forces social democrats to balance a 'dynamic social market economy' with the policy measures needed to provide a secure future for workers. Globalization means that the SPD cannot 'give the same answers that you gave 20 or 30 years ago'. It also 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', and it creates fear in governments 'that in other countries they [might] create perhaps better conditions' (Nietan 2005).

Needless to say, these conclusions are unsatisfactory. It is not clear, for instance, that Zapf's globalization Catch-22 is qualitatively different from the general social democratic Catch-22 cited in Chapter 2. The dilemma Nietan cites of balancing a market economy with providing job security for workers has perplexed social democracy from its inception. For these reasons, we must seek alternative explanations for the SPD's neo-liberal direction over the course of the last few decades.

*European Integration*

As European integration has taken a more neo-liberal trajectory, the capacity to implement traditional social democratic policies has been further circumscribed. For Allen (2007, 351), the 'more free market-oriented pattern of economic transactions and policies' ushered in with the Single European Act (SEA) of 1986 seriously challenged 'the practice of Germany's organised capitalism'. The power of European institutions to prevent governments from running independent economic policy was evident when the European Commission took action against Germany in 2003 because its balance of payments deficit exceeded the limits set down by the Stability and Growth Pact (Potthoff and Miller 2003, 403). Lafontaine's downfall was partly the product of opposition from both the European Central Bank and German capital (Callinicos 2001, 28, 99).

It might be argued that there were European origins to the *Agenda 2010* policy, whose title drew its inspiration from the 2010 deadline set for the Lisbon Strategy, a programme of 'modernization' and reform launched by the European Council in March 2000 in an effort to make Europe 'the most dynamic and competitive knowledge-based economy in the world'. This strategy involved reforms at the regional *and national* level without which, according to the Council, Europe would continue to stagnate 'in the face of an ageing population and global competition. Unless we reinforce our commitment to meeting them … our model for European society, our pensions, our quality of life will rapidly be called into question' (COEC 2005, 3, 4). This is reminiscent of much of the language used by SPD politicians to justify the Agenda policies.

There are several reasons, however, why European integration does not satisfactorily explain the SPD's neo-liberal policies. For one, SPD leaders and politicians cannot disclaim responsibility for integration. In the mid-1950s, the SPD came to agreement with the Christian Democratic position on European integration (Sloam 2005, 16). As Paterson and Sloam (2007, 239) note, of the French, German and British social democratic parties, the SPD is the 'most integrationist … EU policy goals have increasingly permeated SPD policy programmes'. Despite the threats EU integration appears to pose to social democratic values and policies, Schröder did not 'question the emphasis on the stability of Europe's future monetary policy'. The independence of the Bundesbank and Central Bank would 'be respected and safeguarded', and in the future the Government would 'become an active pacemaker of EU reform' (Schröder 1998b). One SPD MEP argued in favour of the EU Services Directive on the grounds that 'in many EU member states there are far too many protectionist rules. These have to be dismantled' (cited in Buck 2005, 2). In terms of the origins of *Agenda 2010*, Fleckenstein (2007, 293) argues that there is little

evidence that the reforms had any origins other than domestic ones. Finally, as we saw in the case of Australia, the phenomenon of neo-liberalizing social democracy is clearly broader than Europe.

### *Coalition Government and* Reformstau

The SPD's failure to achieve government in its own right might be seen as another constraint on its ability to implement more egalitarian policies. The fact that it was in coalition with the more economically liberal FDP was considered by some to be a factor in its implementation of austerity policies in the 1970s and 80s (Wilde 1994, 73). However, its coalition with the Greens cannot explain the neo-liberal bent of the SPD this time round. The Greens have in fact embraced a new 'pragmatism' that recognizes 'tight economic constraints' facing governments (Bluehdorn 2004, 566). Greens Foreign Minister and Vice-Chancellor Joschka Fischer has been among the strongest defenders of the necessity of the *Agenda 2010* policies, and the Greens themselves pushed for further reforms (*BBC* 2003; Theil 2003). It seems, then, that the Greens were if anything a conservatizing force. In any case, all the evidence suggests that the SPD were independently committed to neo-liberal policies.

If coalition pressures were not a satisfactory explanation, nor can the neo-liberal record of the Red-Green Coalition be explained by *Reformstau*, the institutional blockages of the German political system generated by its many veto powers. The SPD's lack of a majority in the Bundesrat from 1999 – combined with the constitutional context of having to gain Upper House backing (Conradt 2003, 193, 194) – no doubt played some role in the government's conservatism. From 2003, the Christian Democrats and the FDP had their own majority in the Bundesrat (Potthoff and Miller 2006, 401). SPD parliamentarian Elke Ferner (2005) thus commented in 2005 that the Christian Democrats were able to 'say yes or no' to 'most laws we make here'.

Yet, even without the need to gain upper house agreement, the SPD's policy record would still have been neo-liberal. The SPD was politically committed to the neo-liberal reforms, evident in one SPD parliamentarian's comment that Germany had not made use of 'the chance to make reforms in the 90s when all the other European countries tried to improve their competitiveness', as a result of which the SPD was forced to try 'to do it in a fast way' (Kelber 2005).

### *Ideological Developments*

As Chapter 3 showed, the collapse of the post-war boom led to the demise of Keynesian economic management and the eventual triumph of neo-liberalism. Market policies gained further ascendancy with the collapse of the Berlin Wall and the Soviet Union, leading to a consensus among political elites that no viable alternative to the free market economy exists. It has been argued that ideological and policy differences between German parties narrowed after the collapse of the Soviet Union (Lees 2000, 3). Potthoff and Miller (2006, 352) write that the 'damage done to the term socialism by the Communist systems caused the SPD to soft-pedal its traditional trademark "democratic socialism"'. Thus, perhaps one reason why

SPD politicians saw no choice but to make cutbacks to the welfare state – rejecting increased taxation on corporations and the wealthy as a means of refinancing welfare – is because of the marginalization of Keynesian economic ideas and the triumph of free market economics.

The interaction of ideas and political events and economic change is no doubt a complex process, with each shaping and reacting upon each other in different ways. But as was argued in earlier chapters, developments in the ideological sphere in favour of the free market flowed from the end of the post-war boom and the discrediting of Keynesianism, but also from the fact that neo-liberal policies fitted the needs of capital accumulation. Therefore, like the other social democratic parties studied in this book, it is argued that changes in the economic context since the 1970s ultimately best explain the neo-liberal direction of the SPD. The difference in the case of Germany has been the much worse economic crisis post-unification, which has only added to the constraints upon the SPD.

## *The End of* Modell Deutschland[6]

In the 1950s Germany enjoyed an 'economic miracle' (Birchall 1986, 80). In West Germany, annual GDP averaged 7.5 percent between 1950–1959 (Minnerup 1976, 13). Between 1950–1973 annual growth averaged 6 percent, but between 1973–1997 it fell to just 2.1 percent (Kotz 2001, 94). The change in gear was strikingly clear. Economic growth fell from 4.7 percent in 1973 to 0.2 percent in 1974 and -1.4 percent in 1975 (Potthoff and Miller 2006, 231). According to Brenner's data, there was a 53 percent decline in the profitability of German manufacturing between 1955–1973, after which 'Germany entered the long downturn, along with the rest of the world economy'. Furthermore, there was a 'very major recession for the German economy at the end of the 1970s. During the three years 1980, 1981, and 1982, the average annual growth of GDP fell to 0 per cent', while the manufacturing rate of profit was half its 1979 level. Meanwhile, the manufacturing rate of profit at the end of the 1980s was 10 percent 'lower than it had been in 1973, 36 per cent lower than in 1969, and 65 per cent lower than it had been in 1955' (Brenner 2002, 120, 121, 124, 125).

Germany has since the 1970s experienced a slowdown comparable to most industrialized countries, but much weaker conditions since Unification when Germany 'entered its worst and longest recession since 1950. Between 1991 and 1995, GDP grew at an average annual rate of just 0.9 per cent' (Brenner 2002, 120, 121, 124, 125). Compared to an average of 7.7 percent in the period 1950–1961 and 4.4 percent between 1961–1973, growth between 1992–2002 was on average a mere 1.4 percent per year (Silvia 2003, 1, 3; Funk 2000, 20). Germany was hit hard by the world recession in the early 2000s (Potthoff and Miller 2006, 391). 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). Profit rates in

6 *Modell Deutschland* is a term given by the SPD in 1976 to the economic model of post-war Germany, whose success apparently owed to the emphasis on cooperation rather than class conflict (Edinger and Nacos 1998, 146–150).

Germany at the turn of the 21st century hovered at a mere 5 percent, or a fifth of their 1950s peak (Harman 2007).

Political parties are less subject to economic constraints when divorced from power. Thus the impact of these economic conditions has been more noticeable when the SPD has been in government. The SPD's post-war approach as a 'proponent of 'social policy', of a way of providing rational and just solutions to social issues and social conflicts', was dependent upon 'economic growth for its continuing success' (James 1987, 145). The Bad Godesberg Programme of 1959 argued that the 'second industrial revolution [i.e. post-war boom] makes possible a rise in the general standard of living greater than ever before and the elimination of poverty and misery still suffered by large numbers of people' (cited in Birchall 1986, 82). Similarly, the SPD's plans for reform in the 1960s and 70s assumed continued growth and wealth creation (Potthoff and Miller 2006, 232). When the boom ended, the SPD 'turned increasingly toward economic liberalism, and introduced a series of austerity policies' (Jahn and Henn 2000, 31). The SPD between 1974–1982 twice 'made major cut-backs and changes in labour market policy to curb the growth of expenditure of the federal labour market administration' (Webber 1983, 24). A 'major wave of spending cuts, involving transport, health and education, was introduced' in 1975 (Birchall 1986, 205). Wolfe (1978, 100) described the policies as 'barely distinguishable from those followed by an earlier generation of unabashed West German admirers of free market capitalism', while Minnerup (1976, 10) regarded Schmidt's policies as tantamount to the 'open abandonment of reformism'. Long-standing party policies were shelved or moderated. Like the Wilson and Callaghan governments in Britain and the Whitlam government in Australia, Schmidt and the SPD 'explicitly abandoned Keynesianism after 1973' (Panitch and Leys 1997, 5).

According to Potthoff and Miller, rising unemployment and lower growth and tax revenues undermined the welfare state, and those concerned by rising inequality could no longer be placated by higher economic growth. A mainstream news magazine argued that traditional SPD voters would bear the brunt of cutbacks aimed at balancing the budget and reducing borrowing. Trade unions campaigned against the government under the slogan 'enough is enough' (Potthoff and Miller 2006, 244, 245, 250). The recession meant that the Coalition could no longer promote both public spending *and* private investment (Birchall 1986, 205).

As Allen (2007, 354) notes, this was an 'eerie precursor' to the Schröder years because 'the SPD rank-and-file in the early 1980s desired to have more economic expansion and maintain more traditional Social Democratic policies while Helmut Schmidt's position was closer to that of the market-oriented FDP'. The difference in the case of Schröder was that there had been no prior reforms to soften the blow of the cutbacks. After coming to power in 1998, he stressed the gravity of the budgetary situation:

> Structural adjustments will be unavoidable. All items of federal expenditure will have to be examined. Government action must be more accurately geared to our objectives and be made more economically efficient … We will concentrate subsidies and social benefits more than hitherto on the *genuinely needy* (Schröder 1998b; emphasis added).

Potthoff and Miller argue that in light of 'the huge mountain of debt which had accumulated under the Kohl government, there was precious little scope for closing the gap between rich and poor', while the 'empty coffers' meant that 'the government could scarcely be a distributor of social munificence' (Potthoff and Miller 2006, 365). Sufficient wealth does exist to fund social reform even in economic crises, but whereas in boom times reforms can be funded by economic growth, during crises they eat into the profits of capital and therefore generate much more establishment opposition.

Neo-liberal policies on the other hand are designed to open up opportunities for investment and improve conditions of capital accumulation in an effort to revive growth. An SPD policy document in 2003 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*'. It further argued 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'. Therefore, one aim of the reforms is to put Germany 'back on the road to growth' (SPD 2003, 4, 7). Eichel (2000) argued that 'a reliable fiscal policy will brighten the growth prospects for the Germany economy'. Schröder (2003) also hoped that the policy would 'provide short-term stimulus for growth'.

A Federal Government paper situated the Agenda policies in the context of making Germany 'successful as a strong business location' (Federal Government 2004, 5). The policies have attracted the praise of chief executives of prominent US corporations, who have previously criticized Germany for its taxes being 'too high, the labor market too inflexible, and non-wage labor costs too burdensome' (Regierung Online 2003). Germany has suffered from low levels of foreign direct investment since the early 1990s, and investment levels in general have fallen from 26.5 percent of GDP during the 1960s to 19.4 percent between 2000 and 2003 (Kitschelt 2000, 200; Silvia 2003, 6). The Agenda is thus aimed at rescuing *Standort Deutschland* [Germany as a business site].[7]

By generating growth and investment it was hoped that the fiscal pressures would ease. The SPD noted in 2003 that: 'Tax revenue is dwindling. Tax revenue in 2002 dropped by around 1.2 percent 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. The SPD also referred to the economic 'burdens' created by reunification in the form of the 80 billion Euros diverted annually to the Eastern *Länder* (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 2004, 14). Dietmar Nietan (2005) stated that 'we must reconstruct our social welfare systems because if we do not do that, in five or ten years they will collapse'. SPD politicians and the government also saw future pressure on the welfare state arising from an aging population (Kastner 2005; Federal Government

7 See comments by Schröder (1998a, 11).

2004, 16). It is debatable whether or not aging populations pose the threat to state finances that is often assumed, but needless to say perceptions of the impact of an aging population are likely to be shaped by the economic crisis and the fiscal pressures it generates.

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Chapter 10

# Political Consequences: The '1930s in Slow Motion'

**Electoral Setbacks and Rising Discontent**

The SPD has been in electoral decline since 1972 (Moschonas 2002, 76; Lees 2000, 89). A discussion of the reasons for this is outside the scope of this book. We are less concerned with any long-term electoral decline than with the collapse in electoral support since 1998. In this respect, a critical factor is the SPD's failure to deliver upon the expectations generated by its 1998 federal election victory, which was not so much an endorsement of the party's Third Way strategy as 'primarily a rejection of Kohl, and many members of the 'new centre' strongly supported the welfare state' (Harlen 2002, 69). After 1995, Kohl's popularity had suffered as unemployment rose to post-war record levels and economic growth fell (Clemens 2000, 40). In the years 1996–1998 his government implemented highly unpopular reforms (Zohlnhöfer 2004, 108).

The perception that the SPD continued where the previous government left off, together with the widespread disaffection that existed towards the Kohl government in its later years, helps explain the speed with which support for the Red-Green government evaporated. There is also the context of continued mass unemployment and the poor state of the economy. Paterson and Sloam (2007, 234) argue that in terms of the tendency for social democratic parties to suffer a backlash because of their failure to deliver distinctive social democratic policies, '[n]owhere has this process proved more dramatic than in Germany'.

Early signs of this backlash came with the defeat of the ruling Red-Green coalition in Hesse in early 1999 (Lees 2000, 121). The SPD was defeated in four consecutive *Länder* towards the end of that year (Zohlnhöfer 2004, 123). Other standout results include the recording of the SPD's lowest post-war vote in March 2004 (30.5 percent) in its former stronghold of Hamburg (Niemeier 2004). In Saarland in September that year the SPD suffered its worst result (30.8 percent) since 1960 (*Deutsche Welle* 2004a). When the SPD lost the May 2005 election in the most populous State of North-Rhine Westphalia for the first time in 39 years, it was its ninth consecutive such defeat, and left the party in control of just five of Germany's 16 *Länder*, down from 11 in 1999 (*Deutsche Welle* 2005a). Up to this point, the SPD had lost every State election, and nearly all local elections, since its 2002 federal victory (Woinoff 2005a; 2005b).

That victory in 2002 saw the SPD's share of the vote fall to 38.5 percent – equal to the CDU/CSU's vote – from 40.9 percent in 1998. It managed to attract only 0.3 percent more support than when it lost in 1983 (Padgett 2003, 47). It was essentially

the government's handling of the flood waters in east Germany and the looming Iraq war – and Schröder's ability to tap into strong public opposition to it – that saved the Coalition from defeat (Rohrschneider and Fuchs 2003).

The SPD's performance deteriorated further at the 2005 federal election. It lost the Chancellorship, and was able to participate in a Grand Coalition with the Christian Democrats only because the latter also performed extremely poorly, marginally bettering the SPD's 34.2 percent of the vote and achieving the second worst result in their history (Murphy 2005). The SPD's vote share was the lowest 'since the early years of the Federal Republic and right after unification in 1990' (Wuest and Roth 2006, 440). Data cited by Wuest and Roth shows that the SPD's support among manual workers fell by 5 percent to 37 percent in 2005, giving it just a 5 percent lead over the Christian Democrats, compared to an 18 percent lead (48 *vis-à-vis* 30 percent) in 1998. The SPD also suffered big losses among trade unionists, suggesting that 'confidence that the SPD represents their interests has significantly eroded among unionised workers' (Wuest and Roth 2006, 452, 453).

The trend visible in the State and federal results was mirrored at the June 2004 European elections, where the SPD scored its worst results since WWII. Its share of the vote fell to just 21.5 percent from 30.7 percent in 1999 (*BBC* 2004a). This collapse in electoral support at all levels of government occurred amid a growing mood of public discontent. The Agenda policies led to the revival of the famous 'Monday-Demonstrations' that brought down the German Democratic Republic (GDR) regime in the East (Zapatist 2004). A 500,000-strong demonstration against the government in April 2004 was described as the biggest ever trade union action against an SPD government (Bornost and Buchholz 2004, 33). Müntefering's 'locust' comments did not protect him from egg-throwing protestors in Duisburg in the lead-up to the North Rhine-Westphalia elections in May 2005 (Graupner 2005). Similarly Schröder faced a 'shock and awe' egg-throwing campaign in the East Germany city of Wittenberg in August 2004 (*Deutsche Welle* 2004b). One commentator noted that the Eastern city of 'Leipzig these days resembles a powder keg of social unrest' (Graupner 2004). One protestor complained that what was taking place under Schröder was not 'social democratic politics, it's politics for the big business people' (cited in Graupner 2004).

These events coincided, according to one historian, with the re-emergence of anti-capitalist sentiment in Germany. The causes of this re-emergence, it was argued, included Germany's economic woes and the unpopularity of the government's reforms (Nolte, cited in Corbett 2005). According to opinion poll research in 2005 some 80 percent of Germans were critical of business (Benoit 2005, 16). However, the debate about the efficacy of capitalism was at least European wide (Heiling 2005). One commentator noted the irony of the fact that the original 'Monday Demonstrations' were aimed at East German Communists, but it was now the latter who stood to gain politically from their revival (see below) (Hessler 2004).

These protests dovetailed with a marked drop in public support for the government. At the time of the June 2003 special SPD conference on the *Agenda 2010* policy (see below), the SPD's approval rating stood at just 27 percent (Braunthal 2003, 17). Another poll three months later saw it drop further to 22 percent, making the SPD

'the most unpopular governing party since such polling began in 1977' (Camerra-Rowe 2004, 18).

The SPD's neo-liberal reforms were heavily implicated in these political setbacks and rising public opposition. Zohlnhöfer (2004, 123) suggests that the SPD's defeat in four consecutive State elections towards the end of 1999 was attributable partly to 'the announcement of [new Finance Minister] Eichel's austerity programme'. Other explanations for this run of defeats included the abstention of particularly low paid rank-and-file members in protest at the demise of Lafontaine, and voter disgust at the sight of Schröder smoking cigars, donning luxury suits and holidaying at Italian resorts all the while lecturing the public on the need for frugality (Braunthal 2000, 33, 34). It later became clear that the Hartz policies and *Agenda 2010* were a 'major turning point for German social democracy and enraged the core elements of the SPD's rank-and-file, not to mention the trade unions' (Allen 2007, 357). Leader of Germany's federation of trade unions, Michael Sommer, conceded in 2006 that 'we were against [Schröder's] *Agenda 2010* reform package because of the inherent social injustices' involved (cited in Graupner 2006). Schröder later claimed that the unions 'wanted to topple the reform programme and me as chancellor because I was connected with it' (cited in Paterson 2007). Potthoff and Miller (2006, 419) argue that:

> The cuts the government introduced to the extensive network of social benefits affected mainly its own Social Democratic clientele. That alone was difficult for a party to swallow which, throughout its entire history, had devoted itself to the interests of working people.

A poll taken in 2003 revealed that almost 50 percent of voters could not foresee an improvement in their financial situation arising from the Agenda reforms (Brandl 2004). A 2004 poll found that 64 percent believed the Agenda policies to be 'wrong', while 76 percent viewed them as 'socially unfair and unbalanced' (Niemeier 2004). As Hough (2004, 3) comments, 'the *Agenda 2010* actually contributed to a further drop in popularity for the social democrats, as they struggled to explain why such changes were necessary'. SPD parliamentarian Dietmar Nietan (2005a; 2005b) claims that the unpopularity of the *Agenda 2010* policy within social democratic ranks partly flowed from its presentation to the Bundestag as a *fait accompli* with little discussion throughout the party. Thus, only some party groups 'support this … *Agenda 2010* policy'.

Similar factors were influential in the 2004 European setback, in addition to high unemployment and low economic growth (*BBC* 2004a). Some 74 percent nominated the reforms as an important factor in their voting choice (Hough 2004, 6). Over ten million people who supported the SPD at the 1999 European elections abstained from voting in 2004 in protest at the reforms (*BBC* 2004a; Hough 2004, 7). These abstentions became a major problem for the SPD, especially in its second term. Elke Ferner (2005) argued that the low turnout amongst SPD voters was a bigger problem than leaking support to Left minor parties (though this comment was made before the 2005 federal election when the Left Party attracted the support of many former SPD voters (see further below)). An official with the German Confederation of Trade Unions (*Deutscher Gewerkschaftsbund*, DGB), Thorben Albrecht (2005), argues

that for the 'majority of people that are dissatisfied with the government's politics, they just stay at home'. SPD parliamentarian Dietmar Nietan (2005) estimates that whereas the Christian Democrats could mobilize some 60–80 percent of their core voters, the corresponding figure for social democrats was between only 30–50 percent.

SPD parliamentarians concede the link between voters' 'disappointment about social democrats and [the] Government and their decisions in social reforms … and their motivation … [not] to vote for social democrats' (Nietan 2005). Commenting on the protests, then-SPD Bundestag President Wolfgang Thierse (2004) acknowledged that 'there is a mood of discontent' as a result of 'the new labor market policy', and that in implementing the reforms the SPD ran 'the risk of being voted out of power at the next opportunity'. Schröder in hindsight attributed his downfall in part to trade union opposition to his *Agenda 2010* package (cited in *Deutsche Welle* 2006f). Another SPD parliamentarian Lars Klingbeil (2005) argued that the electoral setbacks suffered by the SPD at the local and regional level were part of the 'so called *Agenda 2010* … a lot of people were thinking this is not what I voted for and so we lost a lot of credibility'. One SPD deputy correctly predicted that his party would lose 'the [next federal] elections because we were not able to explain [to] our German population why reforms are so important and why' the SPD had to implement them (Jonas 2005). Another suggested in 2005 that many traditional voters perceived little improvement to have occurred in the more than six years his party had been in power (Kelber 2005). Arguably, things had in fact gone backwards. As Andrea Nahles (2005) put it, 'we cut the pensions, we reduced the income of those who have nothing to spare'. One unemployed mechanic from Eastern Berlin summed up the feeling in mid-2005: 'I'm done with the Social Democrats, they're no longer the party of the workers. It's all about what's best for big business these days' (cited in Young 2005).

## A Membership Exodus

On top of these electoral crises and rising public opposition, the SPD has suffered large membership haemorrhaging. At the beginning of the 1990s, the party had more than 900,000 members (Jun 2003, 88). The rapid membership decline since then is evident in Table 10.1.

**Table 10.1 SPD party membership (approximately)**

| Year | Members |
|---|---|
| 1990 | 919,000 |
| 1992 | 886,000 |
| 1993 | 861,000 |
| 1994 | 849,000 |
| 1995 | 817,000 |
| 1996 | 793,000 |
| 1997 | 776,000 |
| 1998 | 775,000 |
| 1999 | 755,000 |
| 2000 | 734,000 |
| 2001 | 718,000 |
| 2002 | 694,000 |
| 2003 | 651,000 |
| 2004 | 606,000 |
| 2005 | 600,000[1] |

*Source:* Woinoff (2005a, 2005b); Potthoff and Miller (2006, 405); Jun (2003, 88).

Note: [1] As at September, 2005.

Not all SPD membership losses are attributable to its neo-liberal trajectory in office, for the decline clearly preceded 1998. Also, the SPD's competitors, too, have lost members (Nietan 2005a; Braunthal 2000, 21). As was argued in Chapter 4, however, the rapid and quite recent nature of the membership losses points to something more than just declining partisanship or the atomization and individualism that characterizes modern society. The SPD was one of the few social democratic parties to enjoy membership growth in the period between the end of the war and the late-1970s (Bartolini 1983, 185). It is possible that this growth was checked by the disillusionment generated by the SPD's right-wing policies between 1974–1982 (see above).

The implementation of policies such as *Agenda 2010* has accelerated the membership losses. Between 1998 and 2007 the party lost some 40 percent of its members (Abramsohn 2007). Table 10.1 indicates that the sharpest drop in membership since the 1990s occurred after it took power, and the biggest decline since it has been in office was in the period 2002–2005 – a drop of 94,000 compared to 76,000 between 1998–2001 and 42,000 between 1995–1998. Moreover, the largest one year drop was in 2003 when some 45,000 left the party. It was in March of that year that Schröder announced his plans to press ahead with the Agenda (Potthoff and Miller 2006, 403). In the three months following the Agenda's announcement the SPD lost more members than over the previous year as a whole (Bornost and Buchholz 2004, 33). Ten thousand members apparently resigned in January 2004 alone (Niemeier 2004). The timing of the membership decline also means that it is unlikely to be a

reflection of the reduced importance attached to party members as a corollary of the SPD's transition from a 'mass' party to a 'catch-all' party (Kirchheimer 1966, 190). In fact, it has been argued that the SPD's membership grew as it transformed into a 'catch-all' party (Braunthal 1994, 185). While other political parties have suffered declines, the new Left Party has experienced significant membership growth (Olsen 2007, 208). Indeed, according to Wuest and Roth (2006, 442), many people who joined one of the constituent elements of the Left Party, the WASG (see below), 'had previously been SPD members'. Furthermore, the perception that there are no longer fundamental differences between the parties could explain the trend of declining membership in the SPD's competitor parties, since membership serves less purpose when the parties no longer are distinctive (Braunthal 1994, 353).

The evidence points to a deleterious impact from the *Agenda 2010* policies on its membership levels. SPD parliamentarian Dietmar Nietan (2005) argues that, while there were membership declines in most parties in the 1980s and 90s:

> the huge numbers who are going out of my party, that was something that you can link to *Agenda 2010*. I can tell you that in my local party organisations, we lost a lot of members and we lost the old members, the people who were in the party for 20, 30, 40 years.

Similarly, his colleague Lars Klingbeil (2005) argued that 'there were a lot of people leaving the party because of this *Agenda 2010*'. Opinion polling evidence revealed that almost 60 percent of members did not expect *Agenda 2010* to cut unemployment, while 48 percent opposed the policy (Braunthal 2003, 15). A separate poll discovered that 60 percent regarded the policy as 'anti-social', and 56 percent considered resigning from the party over the issue. Some 32 percent longed for the return of Oskar Lafontaine – an outspoken opponent of the Agenda – to a prominent position in the party (Thompson 2004, 9, 10). Dissident SPD members and parliamentarians attempted to use the 1994 adopted constitutional rule whereby 67,000 member signatures obtained on a petition triggers a party referendum. While they managed to obtain only 25,000 signatures by the end of 2003, some 42,000 rank-and-file members, 'many of whom presumably signed the petition', quit the party that year (Braunthal 2003, 8). It was reported in April 2003 that some party members had established an internet site featuring a Manifesto entitled, 'We are the Party', which called for a wealth tax and greater government spending in opposition to *Agenda 2010* (Marion 2003, 33). It was the unpopularity of the policy that forced Schröder to resign as party leader in February 2004 (Thompson 2004, 9, 10).[1]

The broader neo-liberal direction also crops up in explanations for the rapid membership losses. As well as membership loss through natural attrition and lack of youth recruitment, Potthoff and Miller (2006, 406) conclude that 'members were increasingly leaving the party in 2003/4 out of disaffection with the direction of the Schröder government and the way the party leadership was operating'. Former SPD Vice-President of the Bundestag Susanne Kastner (2005) argues that 'many traditional members' are 'very disappointed' with the state of Germany, and they feel that the SPD is 'not my party now'. DGB official Thorben Albrecht (2005)

1 Schröder stayed on as Chancellor.

regards the member losses as the result of numerous factors, but he also suggests that the SPD 'isn't that attractive any longer for a lot of workers … if they want liberal politics they [will] choose the original'. The SPD's neo-liberal reforms are 'opposed by large segments of the SPD's rank-and-file membership' (Conradt 2005, 137). An elderly member of an SPD local group in Muelheim reported that: 'Many pensioners have resigned from our group due to the cuts in pensions' (cited in Henning 2005).

## Increased Support for Other Political Forces

In addition to political consequences such as electoral setbacks and party membership losses, the SPD's policies have been to the advantage of rival parties, in particular the Left Party.[2] But the Far Right also have benefited. The polarization discussed in Chapter 4 is perhaps more evident here in Germany than in any of the other case studies, reflected in, for instance, clashes on the streets between NPD supporters and anti-fascist demonstrators (*Deutsche Welle* 2006c). The Left Party has been buoyed by the street protests that have flared in recent years and by the incidence of significant public sector strikes, while the Far Right's presence on the streets has been felt in racist attacks and marches. While one is cautious about drawing any comparisons with 1930s Germany, Cliff's (2000, 84, 85) description of politics since the 1990s as resembling 'the 1930s in slow motion' is more apt here than in any of the other case studies.

The absence of an alternative to neo-liberalism among the major parties has led many Germans to take more radical options. Oskar Lafontaine situated his Left Party in opposition 'to the policy of social dismantling advocated by the establishment parties in Berlin' (cited in Olsen 2007, 209). As was noted earlier, the Christian Democrats actually lost votes in 2005 despite the unpopularity of the SPD. Political scientist Uwe Andersen in 2007 observed that 'there is a tendency where a bigger part of the electorate is ready to vote for smaller parties – even extremist parties' (cited in Abramsohn 2007). Allen cited polling in the year after the 2005 federal election showing that the Greens, Left Party and FDP were each enjoying support of 10 percent or more, while the major parties' vote had shrunk to less than 30 percent. The major problem for the Grand Coalition in this context was not just cobbling together agreement between its partners but 'the likelihood of increasing support for extreme parties' (Allen 2007, 359).

### *The Left Party*

The growth of the Left Party [*Die Linkspartei*] is one of the most striking consequences of the death of social democracy in Germany. The German Greens before the Left Party had originally drawn most if not all of their votes from the SPD (Moschonas 2002, 94; Potthoff and Miller 2006, 241). Yet, their complicity in the Red-Green Coalition's neo-liberal reform programme prevented them from

2 What the 'Left Party' refers to here is self-evident, but the 'Left' refers to the broader Left in German society, including trade unions and social movements.

attracting the support of disgruntled SPD voters: Green support fell to 8.1 percent, less than the Left Party's, at the 2005 federal election.

The Left Party is in some respects an SPD splinter group. It emerged partly in response to the expulsion of two prominent trade union leaders and opponents of *Agenda 2010*, Thomas Haendel and Klaus Ernst. SPD members for respectively thirty-two and thirty years, they were expelled for their involvement with the Electoral Alternative for Work and Social Justice [*Wahlalternative Arbeit und Soziale Gerechtigkeit* (WASG)] (Olsen 2007, 208; *BBC* 2004d). WASG, which described itself as a 'catchment tank' for disenchanted SPD voters and opponents of neo-liberalism (cited in Brewer 2004), was the product of fusion between 'Electoral Alternative 2006' and 'Initiative Work and Social Justice' in June 2004. Electoral Alternative 2006 was made up largely of ex-Party of Democratic Socialism [*Partei des Demokratischen Sozialismus* (PDS)] members, representatives of the activist organization ATTAC (Association for the Taxation of Financial Transaction to Aid Citizens), left-wing intellectuals, and white-collar unionists. The Initiative Work and Social Justice emanated from the engineering union IG Metall, and were reported to have been members of the SPD for several decades (Bornost and Buchholz 2004, 32; Kellner 2005). WASG also recruited former head of the SPD parliamentary fraction in Baden Wuerttemberg, Ulrich Maurer, and leading spokesperson for the SPD Left in the 1970s, Peter von Ortzen (Bornost 2006, 30).

The Left Party was initially an alliance between (the Western based) WASG and the former PDS, which was a successor party to the former East German Communist regime. In July 2005 74.6 percent of the PDS congress voted to create a new left alliance with WASG for the 2005 federal election. Former SPD Chair Oskar Lafontaine had earlier joined WASG, and he later became a leading member of the alliance alongside PDS leader Gregor Gysi (Bhatti 2005). It was agreed in 2006 that PDS and WASG would formally merge in 2007 to form the Left Party (*Deutsche Welle* 2006e).

The Left Party strategically presented itself as a left alternative to the SPD. Indeed, the PDS, while the heir of East German Communism, had adopted the strategy after the fall of the Berlin Wall of 'establishing an all-German socialist alternative to the SPD' (Patton 2006, 209). It had achieved 5.1 percent of the vote at the 1998 federal election, before dropping to 4 percent in 2002. It also performed strongly under the Red-Green Coalition in Länder elections, particularly in the East (Patton 2006, 211, 212). The PDS had enthusiastically backed the 'Monday Demonstrations' in 2004 (Patton 2006, 218). According to one of WASG's members, the organization's leaders represented a 'force that still identifies with what they take to be the traditional SPD, but they are in direct opposition to what Schröder had done to the party' (Bornost 2006, 30). Hengsbach described Lafontaine and PDS leader Gregor Gysi as 'alternatives to politicians who say there are no alternatives' (cited in Bhatti 2005). The Left, according to Lafontaine, was 'the only party which challenges the (capitalist) system. We want to reintroduce the social state' (*Deutsche Welle* 2007c).

This strategic positioning was evident in the lead-up to the 2005 federal election when it called for a withdrawal of German troops from Afghanistan, for higher wages in Germany, and for policies that would make pensioners 'once again proud

to walk the streets'. It also called for higher taxes on stock market transactions, the wealthy and corporations; it supported increased welfare spending and subsidies, and the scrapping of the SPD's labour and welfare reforms, which it described as 'legally decreed poverty'; and it demanded a shorter working week (Furlong 2005b; James 2005). Lafontaine proposed to the SPD in June 2007 that it could become the leading governing party in coalition with the Left Party if it agreed to 'push through a minimum wage, reinstate the old pension system, revise Hartz IV and pull troops out of Afghanistan' – an overture dismissed by the SPD as 'ludicrous' (*Deutsche Welle* 2007b).

From an electoral perspective, the new party was a triumphant success, initially gaining 12 percent of the vote in some opinion polls (Furlong 2005b). A third of German voters, according to one poll taken in mid-2004, would consider voting for a new left party (Brewer 2004). It was reported that the SPD was 'losing their traditional voter base. Many of their left-wing members are now marching with Lafontaine under the banner of social justice singing workers' hymns' (*Deutsche Welle* 2005c). Its success coincided with a radicalization in German society, with protests on the streets and later some of the largest public sector strikes in Germany since the early 1990s, as well as large May Day rallies (*Deutsche Welle* 2006b; 2006c).

In the event, the Left Party won more than 8 percent of the vote and gained some 54 seats in the Bundestag at the 2005 federal election. These were the most impressive gains of all the parties, making it the second largest opposition party behind the FDP (Olsen 2007, 210; Helms 2007, 226). Some 970,000 of the Left Party's supporters were ex-SPD voters (Helms 2007, 226). More than a million Left Party voters were former Red-Green supporters, with some 59 percent nominating social justice as a critical factor in their vote, and 42 percent labour market policy (Patton 2006, 223). The Left Party gained some 42 percent of the vote in 2005 amongst unemployed manual workers in the East on the back of its promise to repeal Hartz IV and implement large-scale public works (Conradt 2006, 22, 23). WASG member Stefan Bornost (2006, 30) described the result as the 'biggest breakthrough of a force left of the [SPD] since the Second World War'. Commentators rate it as a potential radical Left challenger to the SPD nationally (Olsen 2007, 206). The Left Party is aided in this respect by institutional factors. It has been suggested that, whereas in Britain and the US the rightward shift by social democrats has not seen the emergence of strong left-wing parties because of their majoritarian electoral systems, a Proportional Representation system was seen as positive for the prospects of the then-PDS (Harlen 2002, 70).

One account of these developments claimed that the union backbone of the SPD was 'beginning to break', representing 'by far the most dramatic split inside reformism since the war … There have been splits before, but now the SPD is beginning to dissolve at the core of their working class roots' (Bornost and Buchholz 2004, 32). It was further argued that for 'the first time for generations, the monolith of the SPD is showing cracks' (Bornost 2006, 30). Conradt (2006, 23) reported the 'ominous' development from the SPD's perspective of 'increasingly closer relations' between some unions and the Left Party. Andrea Nahles (2005) conceded that 'the survival of the party' is at stake.

This is not to say that the Left Party is without its challenges. For one, its support is still heavily skewed towards the East (Helms 2007, 226). There is tension caused by the discrepancy between the sizes of its component parts, with some WASG members fearing that the PDS will swallow them up (Olsen 2007, 210). On the other hand, there are now more Bundestag members from the West than from the East (Patton 2006, 223). Furthermore, from 2003 the PDS adopted a more accepting attitude towards capitalism (Patton 2006, 217). This is potentially a point of conflict with the more radical WASG. There was tension over the austerity measures and privatization overseen by the PDS as a member of coalition governments with the SPD in Berlin and Mecklenburg-West Pomerania. The decision by WASG to protest against these policies by standing against PDS members in Berlin's election in October 2006 was the subject of much debate (Bornost 2006, 30, 31; Olsen 2007, 212). Whether the Left Party would ever be able successfully to implement its policies in the face of the structural and other pressures cited earlier is a pertinent question. Perhaps their very espousal merely reflects the fact that they do not yet face the concerted resistance that comes when social democrats legislatively try to reform capitalism. How the conflict between the desire for unity and policy correctness (see Buchholz 2006) plays out, and how the Left Party tackles the broader question of achieving reforms within the constraints of capitalism, will go some way to determining its future (see also Chapter 13).

*The Growth of the Far Right: The '1930s in Slow Motion'*

Far Right parties in Germany have made notable breakthroughs since the 1990s (Ignazi 2003, 70). The German People's Union (*Deutsche Volksunion*, DVU) won 12.9 percent of the vote in Saxony-Anhalt in 1998 (Potthoff and Miller 2006, 362). The NPD, which 'models itself largely on Adolf Hitler's National Socialists' (James 2006), received 9.2 percent of the vote in Saxony in September 2004 – only marginally less than the SPD's 9.8 percent. In September 2006, the NPD gained representation in another Eastern State, Mecklenburg-Western Pomerania, after winning 7.2 percent of the vote and six of the assembly's 71 seats (Casagrande 2006). The DVU has representation in the State legislatures of Brandenburg and Bremen (Winkler 2006b).

Thus far, unlike the Left Party, the NPD has not broken through at the federal level. Whereas the Left Party gained 8 percent of the vote, the Far Right alliance between the NPD and DVU achieved only 1.6 percent of votes at the 2005 federal election. This was well below the 5 percent required to gain representation (though it was four times the level of support it managed in 2002 (Rensmann 2006, 81)). Rensmann (2006, 83) observes that the Left Party received most 'most of the protest votes against social reform, globalization, and the war in Iraq'. The Left Party may also have captured some of the anti-foreigner sentiment: Lafontaine cynically at times used xenophobic rhetoric (Potthoff and Miller 2006, 415).

But if the Far Right has not broken through in the federal electoral arena, its positions in State legislatures could allow it to build momentum and provide a platform. Furthermore, the Far Right has made headway on the streets. In May 2005, in a demonstration organized by the NPD, some 3,000 neo-Nazis gathered in Berlin to

march past Holocaust memorials and commemorate the deaths of Germans killed by Allies in WWII, only to be prevented from doing so by 6,000 counter-demonstrators. This followed a 5,000-strong march by NPD members and supporters in February the same year through Dresden to mark the deaths of tens of thousands of Germans killed in bombing raids during the war (Whitlock 2005). The NPD was successful (essentially through threats of physical intimidation) in preventing the go-ahead of an anti-Nazi concert in the Eastern town of Halberstadt in March 2006 (*Deutsche Welle* 2006a). There have also been highly publicized racist attacks (e.g. Winkler 2006a; *Deutsche Welle* 2006d; *Spiegel Online* 2007). In 2006, there was a 20 percent jump in reports of racist attacks compared to the previous year, and a 50 percent escalation on 2004; meanwhile the number of assaults causing injuries also rose (*Deutsche Welle* 2006g). The number of neo-Nazi activists increased from 3,800 to 4,100 in 2005, and the number prepared to use physical violence also rose slightly from 10,000 to 10,400 (*Deutsche Welle* 2006d).

As Werner Patzelt (cited in James 2004) argues, 'the right-wing extremists have been able to capitalize on the same issues that the left has', though clearly to a lesser extent (see above). Funke argues that the NPD has a 'socially engaged face to a racist party' (cited in James 2006). It has even engaged in peace demonstrations endorsed by the PDS:

> More promising and effective are the new nationalistic mobilizations against the "neoliberal" welfare reforms, which hit unemployed workers and recipients of welfare [Hartz IV]. In several Eastern cities, so-called "Monday demonstrations" expressing social protest were dominated by the NPD and other right-wing extremists. The successful parties of the extreme Right in the 2004 elections of Brandenburg and Saxony, the DVU and NPD, have been especially effective in mobilizing blue collar workers (10 percent and 14 percent) and wide-spread opposition to social cut-backs linked to the government's welfare reform (Rensmann 2006, 78).

In Saxony in 2004, some 57 percent of NPD voters nominated Hartz IV as a key factor deciding their vote (Rensmann 2006, 78). The gains in Saxony were viewed widely as a backlash against *Agenda 2010* but, because the CDU Opposition largely backed the policy, both major parties lost votes (*Deutsche Welle* 2004c). In other words, major party agreement on the *Agenda 2010* policies benefited the Far Right.[3] The NPD's leading candidate in the State of Mecklenburg-Western Pomerania promised if elected to fight for jobs and a new minimum wage, and to advocate for people in smaller communities abandoned by the bigger parties (James 2006). The NPD was also investing in youth work in areas where 'the state and its educational facilities are increasingly retreating' (Casagrande 2006). This combination of economic problems and convergence has some historical precedent, because when the NPD last succeeded in Germany between 1966–1968 – it exceeded the 5 percent threshold in seven of eight Länder – it coincided with economic crisis and a Grand Coalition between the SPD and CDU (Ignazi 2003, 67).

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3 Braunthal (2003, 11) notes that while the CDU publicly had its criticisms of the Agenda, it agreed along with CSU and FDP leaders to allow its passage through the Bundesrat unopposed.

The resurgence of the Far Right is not reduced to economic factors; among other things there is a broader distrust of the political system (see Ignazi 2003, 74–79). The economic climate is, however, conducive to Far Right success. There was clear evidence of a correlation between racist attitudes to foreigners and the level of economic disadvantage in any given region (Heitmeyer, cited in *Deutsche Welle* 2007a). Economic conditions are chronically bad in East Germany, where the Far Right has done best, and where the NPD is now located (Rensmann 2006, 79). One in five East Germans are considered as part of an 'underclass', compared to one in 20 West Germans (Schaefer 2006). Nearly 70 percent of East Germans in their 50s surveyed at the beginning of 2005 reported that things were worse than expected 15 years after the fall of the Berlin Wall, with unemployment being the main source of anxiety. Some 42 percent of East Germans on the verge of retirement were either 'dissatisfied' or 'very dissatisfied' with their future prospects (Lehnert 2005). SPD politician Lars Klingbeil (2005) puts the NPD's higher support in places like Saarland down to 'fear, people have fear of what would happen to my job, what would happen to our social state, what will happen to our future'. The State of Mecklenburg-Western Pomerania, where the NPD gained representation in 2006, had an unemployment rate of 18.2 percent. Moreover, much of the manufacturing industry collapsed after reunification, and 'no region of Germany has been left as poor as its northeastern corner, or with as high a jobless rate' (James 2006). According to one commentator: 'There are regions in which democratic structures no longer exist. There are no schools, no doctors and no churches' (Botsch, cited in Casagrande 2006).

While Rensmann (2006, 69) is correct to argue that the NPD's identification with Hitler's Nazis is an inhibitor to bigger success, this will not necessarily always be the case. As Rensmann (2006, 85) himself concedes, the NPD has gained a foothold in places like Saxony, 'the party's neo-Nazi character notwithstanding'. Government and mainstream parties' inability to solve unemployment and economic stagnation can lead people to canvass more extreme policies. After all, the lesson of the Nazis' spectacular growth in support after the impact of the Great Depression was that changes in circumstances can make ideas previously thought to be abhorrent suddenly attractive to sectors of the population waylaid by economic crisis. But the way in which the left responded to the Nazis was crucial then – alas, for the wrong reasons (see Trotsky 1971) – just as it is now. Thus the success of the Far Right will depend on whether the forces to the left of the SPD are, first, able to unite with supporters of the latter to mount strong opposition to the racist attacks on the streets and racist political scapegoating; and second to build from the protest movements and labour strikes of the last few years and develop a credible political alternative to the SPD that points a way forward out of the misery of neo-liberalism. The issues highlighted earlier as critical to the future of the Left Party – which has been more successful in capitalizing on opposition to neo-liberalism, and which stands in the way of bigger gains for the Far Right – will therefore come into play.

**Conclusion**

This section has shown that under extreme electoral pressure, the SPD leadership did not alter its neo-liberal political direction. The consequences include an intense political crisis, with evidence of a haemorrhaging party membership, and devastating electoral setbacks. Provided that the SPD continues on its present policy course, these problems are unlikely to recede. Paradoxically, a return to Opposition might have been in the party's best interests: at least it would have absolved the SPD of the responsibility for implementing the harsh reforms favoured by political and business elites but which grate with party members and supporters. The SPD's collaboration with the conservatives as part of a Grand Coalition since the election is likely to see its constituents become further disenchanted. This is essentially what occurred under the previous Grand Coalition from 1966–1969 (Carr 1987, 198). As political scientist Bernhard Wessels commented, the SPD in 2007 seemed to be suffering a mid-term slump because voters resented it 'for making compromises with the CDU' (cited in Crossland 2007). The post-election raising of the retirement age to 67 was sponsored by the SPD (Abramsohn 2007).

It remains, of course, to be seen whether the current fractures in the SPD will amount to anything comparable to the splits over SPD support for German participation in WWI, and which led to the formation of the Independent Socialist Party (USPD) and later the German Communist Party (KPD) (Braunthal 1994, 12). Yet, the Left Party's prospects are expected to further improve in the absence of an economic turnaround under the Grand Coalition regime of continued welfare retrenchment (Conradt 2006, 22, 23). The success of rivals to the SPD such as the Left Party will hinge on many factors, including whether the SPD goes into Opposition, in which case it might make a concerted effort to regain the support of dissidents and other disaffected members. There are real limits on its ability to do this, however, because of the depleted economic base in Germany and international capitalism more broadly, the impacts of which are felt even in Opposition. Moreover, the fallout from its record in government will last for many years. Other factors affecting any potential challengers include: whether new organizations such as the Left Party can articulate an alternative to the SPD that is attractive to the latter's supporters and non-sectarian over the long-term; whether it can prevent internal divisions from destroying its progress; and the role of trade union leaders in either further instigating or hindering the progress of alternative left groups will also be crucial. Notwithstanding these challenges, the very establishment and success of the Left Party, and the fact that one of its leaders is a former SPD icon, is a major development in Germany and testament to the volatility of 21st century politics. The notable gains of the Far Right, on the other hand, point to the other standout characteristic of politics in the new century: polarization.

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# PART 5
# The Death of Social Democracy in Sweden

Sweden to many observers has represented the pinnacle of social democratic achievement and political strategy (e.g. Crosland, in Castles 1978, xi). Then-ALP Minister for Labour Clyde Cameron in 1973 described Sweden as a 'crucible of social innovation' (cited in Haupt 1973, 1). Even Marxist critics regard the SAP as 'serious social democrats' compared to their British cousins (Sparks and Cockerill 1991, 92). Some commentators maintain that Sweden still offers a social democratic alternative to the neo-liberalizing trends of social democracy in countries such as Australia (e.g. Scott 2006b).

Yet, the SAP *has* increasingly adopted neo-liberal policies such as welfare cutbacks, privatization and deregulation. It has also distanced itself from organized labour, and abandoned its long-standing opposition to EU integration. This has helped generate a perception that little separates the policies of the SAP and its main bourgeois competitors, and among social democratic supporters in Sweden there is the same uncertainty about what the party stands for as there is in Australia, Britain and Germany. The trends in Sweden are therefore in keeping with the broader malaise of international social democracy.

Chapter 11 argues that the decline of Swedish social democracy has been brought about primarily by the collapse of the international post-war boom. As a small nation, Sweden has relied on export income to finance its expensive welfare state, and the boom's eclipse led not only to lower levels of economic growth domestically but also the partial drying up of its export income. Sweden was vulnerable for other reasons, such as the significant increases in government expenditure that accompany the higher rates of unemployment that have come to characterize its economy.

In Chapter 12, we examine the political consequences of the SAP's adoption of neo-liberal policies. After decades of unrivalled dominance, the SAP has suffered significant electoral setbacks, including the loss of the September 2006 election. It may well be that the embrace of neo-liberal policies is one cause of the SAP's loss of its massive electoral advantage over its main competitors. It can also be argued that its steep membership decline from the mid-1990s is partly attributable to the well of discontent within the party over its abandonment of social democratic politics and support for EU integration. Increased support for Left forces and improved prospects for the Swedish Far Right have also been among the consequences of the lack of an alternative to neo-liberalism in Sweden's major parties.

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Chapter 11

# The Decline of the 'Swedish Model'

Swedish social democracy has, according to Tilton (1990, chapter 11), five distinctive ideological themes: integrative democracy, which emphasizes democracy in political, social, and economic spheres; the concept of the 'people's home', envisaging a kind of classless society in which there is solidarity between the citizenry; the symbiosis of efficiency and equality; a socially-controlled rather than socially-owned economy; and a belief that an expanding welfare state extended, rather than curbed, freedom. This gives some clues as to the SAP's answer to the reform or revolution question, for while it was influenced early on by Marxism and the politics of class struggle, these had an even shorter lifespan than in the SPD (Tomasson 1969, 780, 781). A battle occurred in the SAP 'after its 1889 foundation which led to the victory of an openly reformist wing' (Sparks and Cockerill 1991, 93). As Carlsson and Lindgren (1998, 46, 47) argue: 'The fact that Social Democracy accepts private ownership of the means of production means that we also accept the profit motive as a driving force in private production.' In contrast to their social democratic counterparts in France and Britain, the SAP has overseen almost no nationalizations (Hancock 2003, 364). Modest planning and welfare policy rather than state ownership were to be the *modus operandi*, with 'the greater part of the economy [left] to operate according to market principles' (Tilton 1990, 48).

Major reforms were enacted, however, during the SAP's period of unbroken rule from 1932–1976. In the aftermath of the Great Depression it introduced Keynesian-style measures such as increased taxation, significant rises in spending underwritten by deficits, public works programmes financed by borrowings, and a government-driven monetary policy (Anderson and Snow 2003, 95, 96).[1] As is true elsewhere of social democracy, the most substantial reforms were undertaken in the quarter-century after 1945. The welfare state was expanded with the establishment of, *inter alia*, a national health service, supplementary pensions, child benefits, sickness insurance, and public housing programmes. Living standards doubled as a result (Tilton 1990, 166). Public expenditure as a proportion of GDP rose from 25 percent in 1950 to roughly 60 percent at the end of the 1980s (Vartiainen 1998, 21). The innovative Rehn-Meidner industrial relations model was based on equal pay for equal work (instead of the capacity of the employer to pay), co-ordinated wage bargaining, and state support for workers displaced from employment in the form of retraining programmes, labour exchanges, and relocations subsidies (Pontusson

1 According to Castles (1978, 25), the measures, inspired by the Stockholm School of Economics, foreshadowed Keynesian ideas. Yet, Lundberg points out that leading SAP intellectual Ernst Wigforss had 'absorbed' the ideas of a Keynes pamphlet from 1929 (Lundberg 1985, 6, 7).

1994, 27).[2] The model was a response to high post-war inflation, but it provided a political alternative to wage cutting that would help achieve economic growth, full employment, and high wages (Kesselman 1982, 411, 412).

Far from these policies provoking capital flight, the SAP was highly responsive to business interests (Anderson and Snow 2003). As Lundberg (1985, 10) puts it, the SAP 'adhered more or less fully to the rules of a capitalist economy'. As elsewhere, Swedish social democracy urged class collaboration, not conflict (Wigforss, cited in Padgett and Paterson 1991, 10). The Rehn-Meidner model had obvious benefits for workers, but business also profited from the demise of inefficient competitors and from being able to keep wages under control (Sparks and Cockerill 1991, 96). While many gains for minorities and the disadvantaged were achieved between 1932–1976, there remained a 'deep gulf separating the rich and the poor' (Castles 1978, 87).

The history of social democracy in Sweden is not as chequered as it is elsewhere, but the pattern is the same: reforms enacted during periods of economic boom give way to revisions in less buoyant times. Indeed, among social democrats the SAP ranks as something of a 'modernizing' pioneer preceding the likes of New Labour (Lindgren 1999, 48, 49). As SAP parliamentarian Pär Axel Sahlberg (2005) points out, much 'modernization' was undertaken in Sweden because the SAP had been in power for so many years and therefore it had been 'used to … these adjustments to reality'. The party's International Secretary Ann Linde (2005) describes the SAP as a 'rather pragmatic party. We don't have a lot of dogmas. We change with time a lot and we try to reform all the way, [and] not to stand still'. She did insist though that the SAP's defence of high and progressive taxation kept it firmly on the left.

This historical perspective of pragmatism and responsible economic management is important. Hinnfors (2006) argues that both the radicalism of Swedish social democracy during the golden age and its recent neo-liberal direction have been overstated at the cost of neglecting continuities, in particular a broad ideological acceptance of a liberal market economy alongside the use of market-correcting measures. This, of course, mirrors commentary on social democracy elsewhere, in response to which it can be argued that there are undoubted continuities between new and old social democracy in the sense of implementing policies consistent with the needs of capital accumulation. But what makes things vastly different now is that, unlike the post-war boom period, today's economic context renders traditional social democratic policies unsuited to the needs of capital accumulation, and hence the turn to neo-liberal policies (see Chapter 3). Hinnfors' argument that nothing fundamental has changed ignores, *inter alia*, concessions by party leaders themselves (see below) that they have been influenced by neo-liberalism. Moreover, if there is nothing substantially new, it raises questions as to why SAP policies have been so controversial with party members and supporters that it has lost votes to parties on its left (see Chapter 12).

2 It was named after the model's authors, labour economists Gosta Rehn and Rudolf Meidner. For a fuller discussion of the model, see Tilton (1990, chapter 9).

**A Change in Direction**

Out of power for six crucial years (1976–1982) after the collapse of the boom, the change in direction was particularly noticeable when the SAP returned to power and devalued the currency by 10 percent, extracted wage restraint from unions, and redistributed income from labour to capital. Spending as a percentage of GDP was reduced, financial markets deregulated, and some state enterprises were partially privatized, while others were ordered to make profitability their sole aim (Huber and Stephens 1998). The removal in 1985 of controls over capital markets marked, for Ryner (2004, 98, 99), the beginning of neo-liberalism in Sweden. Emphasis on the importance of increasing corporate profits at the expense of labour in an effort to boost economic growth represented a departure from the Rehn-Meidner model (Pontusson 1994, 34). Webber (1983, 39) argued that by 1983 all Swedish political parties believed unemployment could be reduced only 'by a policy which reduces inflation, increases profits, investment and productivity in industry, and improves the competitiveness of Swedish enterprises in domestic and foreign markets'.

The new direction of the 1980s and early 1990s was also evident in regressive tax reforms modelled on those undertaken by Reagan in the US. Plans were also made in 1990 to apply for membership of the EU, to which the SAP had long been opposed (Pontusson 1994, 35, 36). While SAP leaders remained committed to the welfare state model, 'they in effect announced that no additional benefits would be forthcoming'. Furthermore, they sought to demonstrate 'through their actions that the era of social reform was at an end', and conceded to 'longstanding non-socialist claims that Sweden's taxation rate was too high' (Hancock 2003, 390). Lundberg (1985, 32) commented in the mid-1980s on the willingness of a section of the SAP to contemplate more right-wing policies enamoured of Conservative politicians and 'monetarists inside and outside Sweden':

> Reliance on market forces, implying high profits (creating a number of young millionaires) and lowered real wages, is accepted as a pragmatic way out of the economic crisis. For the longer run as well, the 'liberal socialists' argue for giving greater scope to market forces, for relief from government regulations, and a smaller public-sector share. They also concede that high tax rates may have serious negative effects.

In 1990, SAP Finance Minister Kjell-Olof Feldt moved to freeze wages and prices and to ban strikes. This provoked 'outrage on the part of organized labour, the Left Party, many rank-and-file Social Democrats, and the non-socialist parties' (Hancock 2003, 390). Moschonas (2002, 191) remarks that the social democrats had 'resorted – what a historical irony! – to the arsenal of governments without any trade union base of support'. Feldt failed to gain majority parliamentary support for these measures, but his successor Allan Larsson elevated inflation reduction above full employment as a policy goal (Notermans 2000, 31). Furthermore, after the failure of its wage freeze plan the SAP opted for public spending cuts (Pontusson 1994, 37).

Upon its return to government in 1994 after three years out of power, then-SAP Prime Minister Ingvar Carlsson 'affirmed a neoliberal reorientation of public policy in conformity with EU norms' (Hancock 2003, 393). Göran Persson, who assumed the Prime Ministership from Carlsson in March 1996, recalled the new government's

policy package. Sounding suspiciously neo-liberal, it included tax increases and spending cuts; labour market outcomes that included 'responsible pay agreements'; accession to the EU, which produced a 'good climate for investment and production'; and structural changes to economic policy, including independence for the central bank and expenditure ceilings for public finances (Persson 2005a).

The importance of 'sound public finance' is frequently stressed. As 'architect of the government's austerity packages' after 1994 (Miles 1997, 290), Persson (2004) lectured European nations who had violated the Stability and Growth Pact for not taking 'advantage of the good years to put their finances in order'. One key lesson he drew from the party's period in government from 1994–2006 was to 'allow no deficits in public finances; they put politics into a straitjacket' (Persson 2007, 8). Finance Minister Pär Nuder told a party meeting in 2004 that the SAP would 'never ever loosen our grip again on public finances … [W]e must remember that sound public finances are the most fundamental conditions for growth and development'. It was instructive that 'sound public finances' was nominated as critical to growth and development, rather than Keynesian economic intervention, as was practised by the SAP in the aftermath of the Depression and WWII (Anderson and Snow 2003, 95, 96; Pontusson 1994, 24). But 'Keynesianism is no longer considered possible', particularly at the national level, by social democratic thinkers (Lindgren 1999, 55). Moreover, Swedish social democracy has traditionally been focused around government spending, to which 'sound public finance' poses a threat. The SAP has chosen to prioritize fiscal responsibility over full employment, since government spending remains the only way to achieve the latter in light of the collapse of centralized bargaining (Iversen 1998, 72). This unwillingness to use government spending to address unemployment came back to haunt the government at the 2006 election (see Chapter 12).

In light of the emphasis on 'sound public finance', it is not surprising that welfare and social services have been undermined (Verlin Laatikainen 2000, 162). Göran Persson (2004) frequently invoked the imperative of 'modernisation of our welfare systems'. Punitive measures were evident in government promises in its 2005 Spring Fiscal Policy Bill to crack down on 'benefit fraud' by conducting an 'inquiry into the criminal law provisions concerning benefit fraud'. The government announced that 'special delegations against benefit fraud will be established', and '[i]ncreased supervision will be a priority' (MOF 2005). There is greater emphasis on individuals taking responsibility for their own welfare, 'even if this may lead to increases in inequality' (Lindgren 1999, 52). The point about the tolerance of inequality is an important one, given that egalitarianism is central to Swedish social democracy (Vartiainen 1998, 20). Though the SAP has traditionally believed in 'equality of opportunity' rather than 'outcome' (Carlsson and Lindgren 1998, 15–21), there is little evidence that the SAP celebrates obscene self-enrichment in a manner reminiscent of New Labour. What is clear is that inequality has risen during the SAP's most recent stretch of rule. The Gini coefficient fell to 23 in 2005, down from 26.6 in 2000, but still higher than 20.3 in 1995 shortly after the SAP came to power (Savage 2006b). Furthermore, there have been higher levels of hardship, with one report on the Swedish welfare state noting higher poverty rates in the most disadvantaged sectors (cited in James 2002).

Many still believe the universality and generosity of the Swedish welfare state to be intact (Lindbom 2001; Swank 2000). But just because Swedish neo-liberalism is not Thatcherism – rather it occupies the 'left pole' of neo-liberalism – 'does not make it any less real' (Ryner 2004, 98). The direction of policy, particularly since the 1980s, has been clear. The neo-liberal measures cited above are in stark contrast to the reforms – indeed they often undermine the reforms – implemented in earlier periods. There has also been a departure from centralized wage bargaining and from extending the planks of the welfare state. What little public ownership there is in Sweden has been weakened. Alongside its commitment to 'sound public finance', tax reductions for business and the wealthy, and the prioritization of foreign investment, it is difficult to any longer see a social democratic agenda that distinguishes the SAP from other Swedish parties (see further below).

In this respect, the SAP has followed international trends. Gray (1996, 36) argued that Sweden was 'now evolving ineluctably towards the neoliberal norm increasingly dominant in the rest of Europe, with all its costs and hazards'. According to Blyth (2002, 236), after returning to power in 1994 the SAP's strategy anticipated Blairism by pacifying expectations while at the same time responding to the preferences of business; it rhetorically insisted upon the safety of welfare whilst in practice continuing the Conservatives' agenda. Hancock (2003, 379) likens the SAP's policies to Blair and Schröder's. Indeed, Persson sounded rather Blairite when he argued in 1996 that Sweden needed a 'new model': 'Sweden is no longer what it was. Sweden will never again be what it was. Don't believe the time for changes is over' (cited in *The Wall Street Journal Europe* 1996). There is a striking familiarity about one SAP leading member's criticism of those within the party 'who still think that we [can] have the same solutions we [had] 15 years ago with today's problems … they can't accept the realities of today' (Pekgul 2005). In 2006 Blair and Persson exchanged compliments, with the former describing Persson as 'one of the political leaders in the world I admire most', while Persson in turn described Blair as 'the world's leading politician today' (cited in *The Local* 2006b). Persson (2005d, 15) told party delegates in 2005 that the SAP wanted 'to do more with Sweden! (We want as Tony Blair put it: forward not back!)'.

Further Blairite redolence is found in the SAP's disassociation from the union movement (Hancock 2003, 397). Indeed, SAP labour market proposals in 1996 met with union protest, including rival May Day rallies, and threats to withhold funding to the party by the Swedish Federation of Trade Unions [*Landsorganisationen i Sverige* (LO)], which forced the Government to abandon the policies (Aylott 2003, 374). More generally, party-union relations – historically stronger in Sweden than in most countries (Tomasson 1969, 787) – have been more fractious (Pontusson 1992, 308; Widfeldt 1999, 324). The SAP has also lost LO votes to parties on its left, and to a lesser extent its right (see Chapter 12). Like many other social democratic parties, relations between unions and the SAP cooled following the party's embrace of neo-liberal policies (Hancock 2003, 397). Two things particularly upsetting to LO, according to Taylor, were the supplanting of full employment by low inflation as the central macroeconomic policy objective, and policy moves to control public spending and weaken the welfare state. The unions were 'seen by some Social Democrats as an obstacle to renewal while the LO became increasingly vocal in

opposing SAP economic policies' (Taylor 1993). This fits the general thesis outlined in Chapter 2 that the unions were a speed-bump on the social democratic road to a pro-business neo-liberal stance: rather than electoral considerations being key to the changed relationship, unions represented a threat to the SAP's plans to implement policies favourable to capital and antithetical to working class interests.

## Policy Convergence

Numerous commentators on Swedish politics have questioned whether the SAP any longer offers a distinctive policy approach (Pontusson 1992, 308; Einhorn and Logue 2003, 140; Arter 2003, 89; Moschonas 2002, 191). In the lead-up to the 2006 election, Klas Eklund, chief economist at a major Swedish bank argued that:

> There is a clear ideological division between the [left and right] blocs at a microeconomic level, but macroeconomically the differences today are small. Sweden's AAA long-term rating will not change no matter which side wins. We expect state finances to remain stable and national debt to keep shrinking (cited in Ringstrom 2006).

The party's pro-European stance added to the perception of diminishing differences between the parties. Bipartisanship between the leading bourgeois party, the (conservative) Moderate Party, and the social democrats represented a major obstacle to SAP leaders' objective of convincing members and supporters to vote 'Yes' to Sweden joining the EU (Aylott 1997, 125). This bipartisanship was extended to the issue of whether or not Sweden should adopt the single European currency, the Euro. The late-Foreign Minister Anna Lindh,[3] for instance, co-signed with former Moderate Party Prime Minister Carl Bildt a pro-Euro letter to all Swedish people living overseas. The few government members opposed to EMU (five out of 22) were pressured by Persson to withdraw from the 'No' campaign (Widfeldt 2004, 509). As *The Economist* (2003) reported, 'the weight of opinion across the main political parties, the business press and other media had been overwhelmingly in favour'.

Pär Nuder told the SAP Intermediate Congress in April 2004 that historically clear divisions between the Right and Left existed in Sweden, but 'the dividing line on one point has been erased; it has become much less clear. I believe that we social democrats have also been influenced by the neo-liberalism of the 1980s without being fully aware of it' (Nuder 2004). Nuder's SAP colleague Margareta Sandgren (2005) put the SAP's declining share of the vote in the 1990s partly down to the fact that 'it's hard for people to see the difference between the liberal parties and the social democratic parties'. The result is that there are no longer competing visions on display. This is reflected in SAP parliamentarian Margareta Israelsson's (2005) comment that the focus is too much on 'how fast should the cars go, where should we build a school', rather than 'what is our vision for the world'. Margareta Sandgren (2005) similarly calls for 'more vision politics'. Elected party leader after the 2006 election, Mona Sahlin (2007, 6) reflected on the defeat by telling members that the

3 Lindh, the most public face of the 'Yes' campaign, was murdered four days prior to the referendum.

SAP was 'not seen as the bearers of a sufficiently strong vision. We failed to clarify our dreams, our frustration, what Social Democrats wanted and that it does matter who sits in government'.

The parties also appear more alike due to the conservatives' apparent acceptance of the basic parameters of Swedish politics (Tomasson 1969, 775). They accept the need for a strong welfare state – albeit one that they, like social democrats, think needs to be 'reformed' – and consequently do not advocate the more full-blown version of neo-liberalism associated with their counterparts elsewhere (Einhorn and Logue 2003, xiv). Indeed, during the two previous periods in which the bourgeois parties have governed (1976–1982, 1991–1994) they did not implement alternative policies (Blyth 2002, 207, 208; Vartiainen 1998, 35; Pontusson 1994, 48). According to Webber (1983, 31), the unemployment policies of the bourgeois parties in office from 1976–1982 involved 'massive state intervention in the economy, including nationalizations, and deficit spending on an unprecedented scale'. Comparable remarks have been made about the non-socialist Bildt government of the early 1990s (Vartiainen 1998, 35). In fact, in their campaign for office in 1991, the bourgeois parties did not pledge major welfare cutbacks, and the Bildt government's austerity measures were a response to the economic crisis rather than a premeditated ideological assault (Pontusson 1994, 48). As is the case elsewhere, then, the problem is not so much major party consensus as consensus on neo-liberal policies.

## Explanations

Whether or not the crisis in Swedish social democracy is more than a passing phase depends on what has led to the crisis. A variety of explanations are evident in the literature similar to that for social democracy more broadly (see Chapter 3), with particular emphasis placed on globalization and Europeanization. It is argued that the Swedish Model was based on the high economic growth rates associated with the long boom, and when this came to an end in the 1970s it brought pressures for change. Thus, the turn towards neo-liberal policies is not merely a passing phase, but part of a long-term structural change without end in sight. Indeed, it signifies the long-term destruction of the economic base of Swedish social democracy.

A common explanation for the neo-liberalizing of social democracy elsewhere has been the electoral one: the need to reach broader constituencies other than social democrats' traditional ones. We can largely discount this factor in Sweden's case because of the wide affection in which the welfare state has always been held there (Ryner 2004, 103). The SAP's political predominance owes partly to the fact that its policies of fostering welfare state-institutions have generated large constituencies favourable to the welfare state (Esping-Andersen, cited in Schwartz 1994). There is clear evidence that the shift to neo-liberal policies by the SAP has been very costly in electoral terms. While conceding that the unpopularity of some of the SAP's reforms nearly deprived it of power in 1998, Göran Persson (2004) nonetheless insisted upon the necessity of the reforms (see further next chapter). This again suggests that factors other than electoral ones were the motivation behind the policies. In any case, it has been argued that the SAP from early on was able to attract voters beyond the working class (Tomasson 1969, 798).

*Globalization*

The process of economic globalization is widely held to have battered down the defences of even the largest nations, so it would not be surprising if a small country somewhat isolated on the periphery of Europe were to succumb. Einhorn and Logue argue that the Scandinavian model 'rested on the ability of the national government to manage the national economy', something which no longer applied. Indeed, this capacity of the state to direct economic activity within its borders is an assumption from which social democracy in general proceeds. Under the pressure of globalization, Einhorn and Logue suggest, the countries of Scandinavia are increasingly likely to resemble less social democracies than social market economies (Einhorn and Logue 2003, xiv, 516, 530). For Ryner (1998, 2), one cause of Swedish social democracy's downfall was the country's exposure to the 'crisis of Fordism' and the 'process of neo-liberal globalisation'. Pontusson argues that post-Fordism undermined the cohesion of the national labour movement because it creates winners and losers from the gains it produces at the workplace level, and tends towards the decentralization of workplace bargaining and greater wage inequality (Pontusson 1992). Elsewhere, he argued that the growth of MNCs, combined with financial market internationalization, 'has undermined the internal coherence of the Swedish economy and restricts the ability of any government in Stockholm to pursue economic policies that diverge from those of other advanced capitalist states'. In this sense, the decision to pursue EU accession was a response to the problem of increased investment by Swedish capital abroad (Pontusson 1994, 43, 44).

Swedish social democrats themselves believe, somewhat paradoxically, that globalization is positive, but also inevitable and somewhat destructive of traditional social democracy. Persson describes it as 'both inevitable and desirable', and that in the long-run it is 'a truly "positive sum game", provided that adjustment challenges for individuals, regions and countries are handled wisely' (Persson 2005b). He regarded globalization as 'a powerful force. We must learn to live with increased competition and the rapid changes it involves' (Persson 2005). Elsewhere, he warned that capital 'moves at lightning speed across national borders, at a tenth of a second' (Persson 2005d, 12). Minister for Employment Hans Karlsson (2004) nominated the attraction of foreign investment as 'one of the Swedish government's main priorities' because it 'promotes competition and brings new expertise, new technology and new capital into Sweden'. For the SAP, 'globalisation is here, it's like the wind' (Linde 2005). Another SAP parliamentarian acknowledged that it puts 'pressure on high tax countries' with 'very well built social system[s]' (Skoldestig 2005). Margareta Israelsson (2005) comments that globalization enables a company operating in a small town in Sweden to suddenly say, 'well we're moving to India. We get better educated people [there], they know more … we can pay them less and so we're getting out'. Veronica Palm (2005) claims that: 'It's easier both for companies to move but also to move out parts of the production to low salary countries', which is bad for Sweden where 'salaries are high, [and] the taxes are high'.

As is the case elsewhere, however, there are problems with the globalization explanation. Notermans (2000, 37, 38) points out that the capital flight option has long been open to Swedish business, which has for the most part co-existed

peacefully with social democracy. On the other hand, there was an offensive by Swedish industry in the 1980s against the welfare state, and in favour of wage decentralization, privatization, deregulation, and EU accession (Pontusson 1994, 39). This offensive is not likely, however, to have come about because of globalization: the rather sudden commencement of this offensive suggests that sharp changes in economic conditions are a more likely explanation (see below). Moreover, some have presented strong arguments challenging the notion that globalization has impacted negatively on the Nordic welfare states (e.g. Swank 2000). These issues, along with the problems identified in Chapter 3 with the globalization explanation in general, cast too much doubt on its ability to explain the crisis in Swedish social democracy.

*European Integration*

According to the 'Europeanization hypothesis', the distinctiveness of Sweden's social and economic policies will be threatened, *inter alia*, as a result of competition with other EU countries with more attractive investment regimes (Moses, Geyer and Ingebritsen 2000, 4). The SAP Government's initial announcement in 1990 of its intention to apply for accession was included in an extensive package of austerity measures (Widfeldt 1996, 110). The decision to cut government spending on sick leave, unemployment benefits, and parental leave by $4 billion over a three-year period in June 1995 was linked to the EMU convergence criteria (Verlin Laatikainen 2000, 161, 162). The SAP's desire to be a member of the EU was inspired in part by a wish to 'reassure business and the capital markets' in the context of the domestic economic troubles of the early 1990s, and can be seen as a response to the increasing relocation by Swedish business to other parts of Europe (Notermans 2000, 42; Pontusson 1994, 43, 44). EU integration is seen as a threat to Sweden's generous welfare system, as it entails a 'loss of macroeconomic instruments, both fiscal and monetary, that have been used to support the Swedish social welfare state' (Verlin Laatikainen 2000, 160, 164).

The undeniable pressures towards economic liberalization are certain to intensify with European integration. Initiatives such as the EU Services Directive pose particular challenges. While then-Minister for Industry and Trade Thomas Östros (2004) stressed that its final form must comply with Swedish welfare 'values' for it to be acceptable, he expressed his support for the principles of the Directive, declaring that Sweden already is 'probably the country in Europe that has opened up the most to the rest of the world to trade in goods and services'. The Swedish government supported the concessions to the Directive pushed by France in the lead-up to the referendum on an EU Constitution in 2005 (*BBC News* 2005). Despite this, the Directive will no doubt still pose some threat to Sweden's extensive social sector.

One obvious problem with the persuasiveness of the European integration argument in this case is that the trend to neo-liberalism in the SAP obviously commenced well before it abandoned its opposition to accession in 1990, which, it can be argued, was less a cause of neo-liberalization in Sweden than a symptom. Furthermore, as was pointed out in previous chapters, social democratic neo-liberalization has occurred in countries unaffected by European integration such as Australia.

*Ideological Impacts*

Alongside these structural pressures, neo-liberalism has risen to become the new economic orthodoxy in Sweden (Blyth 2002, 215). For Einhorn and Logue (2003, xi) the small size of the Scandinavian nations makes them not only more dependent on economic activities beyond their borders, but also more subject to 'external ideological factors'. Ryner (1998, 55) claims that global developments 'confirmed rather than transformed perspectives formulated on the domestic arena … [S]tate managers were already open to these types of ideas' as a result of changes in political discourse in Sweden.

As is the case in other countries, the crisis of Swedish social democracy could be 'related to the collapse of communism in Eastern Europe and to the intellectual crisis of the left throughout Europe' (Pontusson 1992, 309). Kjell-Olof Feldt argued in 1989 that the market economy had 'won a total victory over its only known alternative, [the] planned economy' (cited in Hinnfors 2006). In respect of the Scandinavian countries, Einhorn and Logue note that: 'After the Soviet collapse, the political center of gravity shifted to the right'. In Sweden, this development led to the process of accession to the EU (Einhorn and Logue 2003, xii). Moses, Geyer and Ingebritsen (2000, 2, 3) argue that after the Berlin Wall fell and the 'end of history' was proclaimed, Scandinavian countries started to exhibit the 'symptoms of susceptibility to globalization/ Europeanization'.

Perhaps Swedish social democracy was more susceptible to neo-liberalism because of its own weakened state in the post-Cold War era. Ideologically, it is increasingly less clear what Swedish social democracy stands for. Anne-Marie Lindgren, writing in the late-1990s, found it difficult to 'put a clear ideological label on the social democratic government of today'. There is little 'ideological' debate within the SAP, with disputes centring around 'the affordability of different options' and the future of the welfare state in general. The word that best encapsulates the party's state of mind, she suggested, is 'uncertainty' (Lindgren 1999, 50, 51). On the other hand, SAP politicians publicly support and defend the Swedish Model, sometimes from a 'highly ideological' standpoint (see Persson 2005a), even if it is not always clear what is meant by this. The SAP identifies as a key challenge for the future the need to 'combat neo-liberal thinking' (SAP 2003, 5). But there are words, and there are deeds: Persson's own reputation was forged by his 'championing of welfare cuts' as former Finance Minister (Miles 2000, 232), and the neo-liberal policy practice cited above contrasts strongly with any anti-free market rhetoric. Witness earlier cited comments by Persson that Sweden needed a 'new model' (cited in *The Wall Street Journal Europe*, 1996). 'Ideological' attacks on neo-liberalism from the party therefore should be viewed sceptically, particularly as they tend to coincide with the end of the electoral cycle or with addresses to the SAP faithful (e.g. Persson 2005d).

Irrespective of whether or not these 'ideological' defences of the Swedish model are authentic, it is unlikely that ideological shifts can provide an ultimate explanation. Partly this is because of the general argument made in Chapter 3 that the end of the post-war boom created the climate for the emergence, and eventual dominance, of neo-liberal ideas. Furthermore, while some writers point to the impact of the fall of the Berlin Wall, it is clear that the trend towards neo-liberalism commenced much earlier.

*The Economic Context*

Like most social-democratic parties, the SAP implemented its major social reforms – the introduction and expansion of primary and secondary education, public housing policies, labour laws, hospital care, and care for the elderly – during the post-war boom period (Carlsson and Lindgren 1998, 92, 93). As late as 1950, taxation as a percentage of GDP was only 21 percent, meaning that the major expansion in the tax take took place after this (Norberg 2006, 86). Even many of the reforms prior to this rested on high profits during the late-1930s boom (Sparks and Cockerill 1991, 95, 96). Sweden also benefited from 'neutrality' during the war, profiting from its supply of steel to the Nazis (Kesselman 1982, 411). Sweden's abstention from both world wars gave it a head start on many European countries, with growth between 1946–1950 averaging 4.5 percent (Sparks and Cockerill 1991, 95, 96). After the war it was able to avoid the pressures of the arms race and to build profitable relations with Third World countries at the expense of major powers (Birchall 1986, 195, 196). Economic growth in the 1950s and 1960s averaged 3.3 percent and 4.6 percent respectively (Swedish Institute 2004). The Swedish economy at its peak in the mid-1960s was characterized not only by strong growth but also full employment (between 1.5–2.5 percent), low inflation, cyclical stability, and a rapidly rising public sector (Lundberg 1985, 3). Ryner argues that the post-war boom, and high demand for Swedish exports, put a lid on the conflicts and tensions in Swedish society, allowing the extensive development of the universalist welfare state at the same time as maintaining cost competitiveness and full employment (Ryner 1998, 34).

Sweden was badly affected by the world slowdown from the 1970s onwards. In that decade, its economy grew slower than the EU average (Swedish Institute 2006, 1). According to Lundberg (1985, 33), there was a 'near cessation of economic growth during 1974–1983'. The 'Swedish Model' is widely considered to have come to grief in the 1970s:

> The actual stagnation of real GNP, beginning in 1974 (an average GNP increase rate of 1 percent until 1983), and the declining trend of industrial production, since 1975, were certainly not intended. But the very fact that growth was interrupted had serious implications for the working of the system. For more than two decades a steady growth rate (around 4 percent) had been a basic assumption for the working of the [Swedish] model. From the mid-Seventies variability and uncertainty were the rule (Lundberg 1985, 24).

SAP reforms 'had been underwritten by a rearmament drive, and their period of greatest advance coincided with the longest world boom in the history of capitalism'. When the long boom ended, 'the problems of the Swedish economy were very sharply illuminated' (Sparks and Cockerill 1991, 97, 98).

Growth averaged just 2 percent annually in the years 1980–2003 (Swedish Institute 2004). Sweden was particularly vulnerable given the high cost of its welfare state. Each decline in economic growth to the value of one percentage point reputedly causes an increase of 0.7 percent in public expenditure (Madeley 1999). As Lundberg notes, slower growth implied 'stagnant government revenues and rapidly rising expenditures', leading to budget deficits. Hence the break in the trend of rising public expenditure shares of GDP (Lundberg 1985, 26, 27). A related economic

pressure arose from the fact that unemployment benefits are comparatively high as a proportion of GDP (Einhorn and Logue 2003, 161). Thus, as unemployment rises the fiscal pressures from this are even greater than in other countries. Official unemployment rose from just 1.7 percent in 1990 to 8 percent in 1994 (Swedish Institute 2004). Huber and Stephens (1998) note that despite improved export figures in 1994, 'the high unemployment and thus pressure to cut entitlements continued'.

Among the case studies undertaken in this book, Swedish social democracy provides less clear-cut evidence of an immediate impact from the economic crisis. As Wolfe (1978, 118) argued, 'the 1976 provision for worker control of capital shares' was an interventionist policy that 'aroused business hostility'. This is likely to be related to the fact that the SAP was out of power for six crucial years (1976–1982) not long after the crisis struck.[4] Also, Sweden initially did not suffer the effects of the international recession in 1974–1975 (Särlvik 1977, 93). Nevertheless, Kesselman (1982, 416) in the early 1980s argued that 'the SAP has moved to the right in response to the international economic crisis'. Indeed, 'Swedish prosperity was very heavily dependent on the growth of the world economy' owing in part to the high proportion of its goods destined for export.

Despite a modest economic recovery in the early 1980s, the Swedish economy did not resume its dynamic post-war state, and growth remained below the EU average (Ryner 1998, 36, 41, 5; Swedish Institute 2006). Sweden was hit even harder by the recession beginning in 1990. That year, the Swedish stock market fell 40 percent, more than in 1931 (Sparks and Cockerill 1991, 101). Economic growth declined 5 percent, and employment dropped 10 percent between 1990–1993 (Swedish Institute 2006, 2). According to an IMF report, not only was this crisis longer and more severe than the previous one in the 1980s, it constituted the 'deepest and longest recession since the 1930s' and challenged the very viability of the welfare state. The report noted that reforming the social security system was not acknowledged as a necessity 'until the adverse budgetary effects of the most recent economic downturn became apparent' (Lachman, Bennett, Green, Hagemann and Ramaswamy 1995, 1–3, 31). According to Norberg (2006, 87, 88), the early 1990s recession, while not making major inroads into the high level of taxes or welfare state, nonetheless:

> forced Sweden to abandon a lot of the excesses from the 1970s and 1980s. Marginal tax rates were cut, the central bank was made independent, public pensions were cut and partially privatized, school vouchers were introduced, and private providers were welcomed in health care. Several markets were deregulated, like energy, the post office, transportation, television and, most importantly, telecom, which opened the way for the success of companies like Ericsson.

Furthermore, while the recession in the early 1990s was international in scope, Sweden was particularly badly affected (Swedish Institute 2004). Persson (2005d, 3) suggested that there has 'never been as many companies going bankrupt as there

4 It has even been argued that the return to power of the conservatives in 1976 did not see any significant attacks on the welfare state until the early 1980s economic downturn, in response to which the new government sought to control spending for the 1980–1982 period and proposed more substantial retrenchment for 1983 (Swank 2000, 106, 108).

were in the years 1991–1994'. The early 1990s recession, according to Notermans (2000, 31), caused large budget deficits, and 'forced the SAP to pursue welfare retrenchment'. The 'crisis packages' of the conservative government of the early 1990s were developed in the context of a 'dramatic fall in growth rates' (Swank 2000, 106, 108). Similarly, the austerity programme enacted by the Persson government from 1995, which amounted to cuts worth 8 percent of GDP, was a pragmatic response to a fiscal crisis rather than indicative of an ideological shift (Vartiainen 1998, 22). It is against this background that one must interpret the widely held view that Sweden's generous welfare provisions are no longer 'affordable' (Ramia 1996, 64).

While the Swedish economy has experienced a recovery since 2002, as *The Economist* (2006) notes, this 'should be seen mainly as a rebound from the 1990s trough'. Persson (2005) argued that future challenges to the welfare state posed by an aging population meant that it was 'important that an upswing in the economy does not produce a level of expenditure that cannot be maintained during a recession'. This is indicative of the degree to which current 'booms' do not lead to progressive social reforms by social democrats because they are inevitably short-lived and occur in a global context of economic uncertainty and instability.

SAP politicians and thinkers concede the relationship between declining economic growth and cuts to welfare. Former social democratic Prime Minister Ingvar Carlsson asserts simply 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' (Carlsson and Lindgren 1998, 77). Persson (2004) commented that 'we are so heavily dependent on economic growth to maintain our European social model'. He has conceded the unpopularity of some of the SAP's reforms, but he nonetheless insisted upon their necessity in order to generate economic growth, without which 'it is not possible to maintain a generous welfare-model' (Persson 2004). 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).

Related to the change in policies brought on by the end to high growth were the changes in employer behaviour. Swedish social democracy had always been based on 'political agreement and harmony' with business (Lundberg 1985, 1). This changed with the onset of the recession. The tension and conflicts papered over by the boom came to the surface again, evident in 'the nation-wide strikes and lock-outs of May 1980' (Webber 1983, 30). As we saw earlier, Swedish employers launched an 'offensive' against social democratic policies, and the main employer's organization 'withdrew from the system of corporatist representation of government bodies' (Pontusson 1994, 39). Ryner argues that the beginnings of a shift in employers' strategy was evident in the early 1970s, with the 'critical turn' coming in 1976 in opposition to the wage-earner funds (Ryner 2004, 106, 107). Pontusson (1994, 39) marks the turning point as the late 1970s. Even conflict between the political blocs in the Swedish party system became much more pronounced than during the 'golden decades' when social democratic reforms enjoyed broad support (Lundberg 1985, 24). The 'offensive' described by Pontusson and Ryner arguably was a reaction to a worsened economic climate that demanded policies to open up opportunities

for business investment and improve capital accumulation rates. Also, the SAP's embrace of pro-business policies reflected its belief that restoring private sector profitability was key (Padgett and Paterson 1991, 160). The collapse of the boom, as we saw in Chapter 3, had a similar effect in other countries, as capital demanded new policies to revive profitability.

The change in economic context offers a better explanation for the shift to neo-liberalism than the ones reviewed above. No doubt the decline of the Swedish Model is not attributable only to the economic crisis.[5] Yet, only the end of the post-war boom can explain the timing of the changes and why the changes were neo-liberal in nature. The ideological explanation begs the question as to why the ideological influences occurred then, and why neo-liberalism. It is also difficult to see how the SAP, operating in a country whose geography means that it has always felt the chill winds of international competition, was pressured to adopt neo-liberal policies suddenly in the 1970s and 80s. Support for European integration reflected a change in SAP policy symptomatic of the much earlier embrace of neo-liberalism.

5 Lundberg lists no less than eight factors undermining the Model. Without going into detail, I would argue that many of the factors he lists are associated with the impact of the collapse of the post-war boom (see Lundberg 1985, 23–28).

Chapter 12

# Political Consequences: The SAP Loses its Invincibility

## Electoral Setbacks

It is not suggested here that all the SAP's electoral problems are attributable to its neo-liberal policy approach. Yet, it is arguable that its loss of invincibility coincided with the eclipse of the post-war boom, and that its neo-liberal reforms in the 1980s and 90s further undermined its electoral position. When the SAP lost office in 1976, it was its first defeat for 44 years, and marked the end of permanent social democratic administration (Einhorn and Logue 2003, 20). The SAP was defeated again in 1991 when its share of the vote dropped to 37.6 percent from 43.2 percent in 1988 (Sainsbury 1992, 161). Pontusson (1994, 24) argued that this was no 'temporary setback' for the SAP, but rather 'a landmark in a reconfiguration of Swedish politics'. After returning to power in 1994 with over 45 percent of the vote, its support at the 1998 election fell to 36.4 percent, its poorest performance in 77 years (Madeley 1999; Blomqvist and Green-Pedersen 2004, 591). The SAP's support at the 2002 election did recover to just under 40 percent (Möller 2002). This result, however, was still very poor historically (see Table 12.1), and the SAP lost power again in 2006 for the third time in 30 years. While still impressive by international standards, this is a big deterioration on its previous standing.

**Table 12.1 SAP average share of the vote, 1930s–2000s**

| Decade | Share of the vote (approximately) |
|---|---|
| 1930s | 45% |
| 1940s | 48.2% |
| 1950s | 46.6% |
| 1960s* | 47.6% |
| 1970s | 43.7% |
| 1980s | 44.5% |
| 1990s | 39.8% |
| 2000s | 37.4% |

*Source:* Hancock (2003, 369).[1]

Note: * Electoral statistics for the 1930s–1960s included elections at county and municipal level.

1 These statistics are based on figures in Hancock (2003, 369), as well as – for the 2000s – the author's averaging of 2002 and 2006 election results.

The SAP's loss of office in 1976 coincided with the beginning of the international economic downturn that undermined the Swedish Model. The SAP had experienced considerable losses in support in 1973, but Bo Särlvik attributes these and the loss of office in 1976 largely, though not exclusively, to economic problems such as inflation and unemployment that shook the confidence of Swedes in the welfare state: 'The Social Democrats decline in periods of fast-rising prices and gain strength in periods of stable prices and economic growth' (Särlvik 1977, 90, 93, 120).

The SAP's continued decline since is partly a consequence of the harsh neo-liberal reforms enacted prior to losing office in 1991 and after resuming power in 1994. Close to 25 percent of voters at the 1988 election placed themselves to the left of the SAP, and an even larger proportion of voters in 1990 believed that the Government 'had gone too far to the right in its public sector cuts and in promoting a tax reform package that did nothing to reduce disparities in wealth' (cited in Arter 1994, 76). Defeated Prime Minister Ingver Carlsson attributed the loss to a voter backlash against the harsh measures taken by the SAP (cited in Ryner 2004, 115). During this period there was gathering union and 'rank-and-file worker dissatisfaction with SAP economic and financial policies', which coincided with an incipient electoral dealignment at the expense of the Social Democrats, as voters either switched parties or abstained from participating in elections (Hancock 2003, 390). The SAP itself puts its weaker electoral standing in the 1990s down to:

> [a] certain reluctance among left voters to accept the opening of [the] Swedish economy to the global markets and movements of international capital … When Social Democrats came back to power in 1994 they had to reform the welfare state and reduce benefits in a somewhat unbalanced system, which led to big losses to the left in [the] 1998 [election] … (SAP 2003, 3).

Anne-Marie Lindgren (1999, 47) sees the 1998 loss of support as a consequence of the Government's enactment of 'harsh measures necessary to eliminate the huge deficit in the state budget handed over by the former Liberal-Conservative Government of 1991–1994'. Persson (2004) later conceded that the welfare cuts almost resulted in a loss of 'office for the Social Democratic Government'.

Sociological factors – in particular, a decline in the industrial working class – cannot explain major slumps in support such as those experienced in 1991 and 1998. As Pontusson (1992, 310) argues, such factors 'are simply too long-term and incremental to capture the timing and dynamics of the crisis'.[2] The SAP's performance has declined sharply in relatively recent times. As the SAP (2003, 3) itself noted, its performance in the 1990s has been 'shakier'. Electoral support in the 1990s on average was 5 percent less than in the 1980s (see Table 12.1). The party has received less than 40 percent of the vote only four times since 1930 (1991, 1998, 2002, and 2006), and each of these occurred within the last five elections.[3] There are no sociological or demographic trends that could explain this.

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2 Although Pontusson is referring here to a more general crisis in Swedish social democracy rather than an electoral one in particular, the point is still relevant.

3 Arter (2003, 82) made the point that after the 2002 election the party had received less than 40 percent only three times. I updated this point after the 2006 election.

The SAP's related push for European integration undoubtedly has also contributed to its loss of support. The reversal of its long-standing opposition to EU membership opened up a large gulf between itself and party supporters. Around 50 percent of SAP voters, 'especially those in blue-collar work', eventually voted 'No' in the 1994 referendum on EU accession (Miles 1997, 251).[4] There was a 'groundswell of opposition' within the party to membership, and the SAP's pro-European stance 'shook the loyalty' of party supporters (Arter 1994, 85; Einhorn and Logue 2003, 100). Miles argues that integration 'reinforces the process by which the SAP becomes progressively less social democratic and increasingly class less in orientation' (Miles 1997, 302). As we saw in Chapter 11, EU membership is directly associated with the unpopular welfare cuts of the 1990s, which in turn cost the party badly at the 1998 election. Opposition to the European project among SAP supporters stems from a variety of sources, including concern over the 'democratic deficit', the perception that neo-liberals predominate in Europe, and the fear that reduced welfare and incomes will follow integration (Lindgren 2005). Among the variety of problems for the SAP in the lead-up to its defeat in 2006 was the Euro debacle, which Persson himself rated as his biggest failure (Aylott and Bolin 2007, 622).[5] Despite some two-thirds of SAP parliamentarians urging a 'Yes' vote (Palm 2005), exit polls showed that a majority of SAP supporters (53 percent), and almost 70 percent of trade unionists, voted 'No' (Widfeldt 2004, 511, 512, 513).

After the major drop in support in 1998, the SAP's vote did recover in 2002. Explanations for this include economic recovery, which allowed some increases in government spending in 1999 and 2000 to deal with unemployment, and to help alleviate the pain caused by the cuts from previous years (Widfeldt 2003, 779; Möller 2002; Swedish Institute 2004; Miles 2000, 235). The SAP's vote also improved in the context of division among the non-socialist parties, and the lack of a clear-cut alternative candidate for Prime Minister (Möller 2002). Even so, this result of just less than 40 percent was still very poor historically: between 1932–1988, the SAP's share of the vote never fell below 41 percent (Pontusson 1994, 23).

That 2002 did not signal a return to SAP hegemony was proved beyond doubt by its loss of power at the September 2006 poll, when its share of the vote fell nearly 5 percent to 35.0 percent. Its worst result in a parliamentary election since 1920, the SAP was bedevilled by high unemployment, which the conservative 'Alliance for Sweden'[6] nominated as its main policy focus, and about which the SAP had little to say except to advocate supply-side measures in the labour market and education: one SAP MEP commented that 'the party leadership quite simply lacked ideas about how jobless growth should be addressed' (cited in Aylott and Bolin 2007, 621,

4 The referendum took place on 13 November 1994, with 52.2 percent voting in favour (Miles 2000, 229).

5 At the September 2003 referendum on adopting the Euro, close to 56 percent voted against and just 42 percent in favour – a difference of over 800,000 votes.

6 The Alliance was comprised of the Moderate Party, Centre Party, Christian Democrats and Liberals.

627, 630, 631).[7] The SAP effectively ridiculed the Left Party's proposal to expand public sector employment by 200,000 jobs by saying that 'we all want world peace' (Juholt, cited in Savage 2006a). The SAP did pledge to raise unemployment benefits, build more homes for the elderly and improve their housing benefits, and to reduce the cost of dentistry, but the timing of the reforms' introduction was left open and would depend on the state of the economy and public finances: 'Quite honestly the scope for new reforms is extremely limited in 2007. They will come later in the term' (Persson, cited in *The Local* 2006c). The fact that unemployment was a major weakness is instructive, for social democrats, inability to address unemployment is an important reason, according to Pelizzo (2003, chapter 5), why voters increasingly see fewer differences between the parties. The Alliance had incurred 'into traditional Social Democratic territory through pushing jobs as its main issue'. Indeed, it had labelled itself as the 'new workers' party' (Aylott and Bolin 2007, 627, 629). In this sense, it is not surprising that some 56 percent of SAP local association chairpersons argued for the party to move to the left in the wake of the election defeat (*The Local* 2006f).

## Falling Membership: The Demise of the Mass Party

Once the 'mass party par excellence' (Aylott 2003, 369), the SAP's membership rose from approximately 550,000 in 1946 to over one million in 1990 on the back of collective trade union affiliation to the party. According to Einhorn and Logue, it then slumped to 259,000 in 1992 when collective affiliation ended.[8] The figure had fallen further to 177,000 by 1999 (Einhorn and Logue 2003, 131). In 2003, the party claimed a membership figure of 152,000. It admitted that its numbers 'have been declining for the last ten years, but this year … we have noticed a slight increase' (SAP 2003, 9). Despite any increases that year, membership had fallen to 125,000 by 2007 (Sahlin 2007). While not something peculiar to the SAP (*The Local* 2007c), it experiences 'severe problems' in recruiting young people (Brandt 2005). In addition to the quantitative decline, there has been a qualitative deterioration:

> [T]he general perception is that the numbers of party members attending meetings have declined both absolutely and relatively. Many subsidiary Social Democratic organizations – clubs, newspapers, cooperatives, and the like – have folded; others, such as sports clubs, in surviving have lost their political tie. To be precise, what has been lost is not the party as a political organization … It is, rather, the party as a social organization. The problem is particularly apparent in urban areas and, of the movement parties, *the Social Democrats have been most affected* (Einhorn and Logue 2003, 131, 132; emphasis added).

The slump in membership is, of course, not solely attributable to the party's neo-liberal trajectory. SAP politicians themselves point to the decline in membership for

7 While there was considerable dispute about the real unemployment rate, the OECD provided a figure of 8.5 percent and the McKinley Global Institute 15 percent (Aylott and Bolin 2007, 623; Munkhammar 2006).

8 Collective membership involved the automatic enrolment of LO (blue-collar) union members in the party.

other political parties and voluntary organizations (Palm 2005; Sahlberg 2005), and there is evidence to support their claims (Mair and van Biezen 2001, 14, 19). Yet, as we saw in previous sections of the book, party membership decline is neither universal nor inexorable, with the Left Party in Germany and the Greens in Australia enjoying membership growth. Also, while the SAP's absolute membership fell from 229,095 to 162,578 between 1989–1998, the Swedish Left Party's membership remained at just under 13,000 over the same period. Similarly, the Greens' membership rose from 2,000 in 1981 when the party was formed to a peak of almost 9,000 in 1988, before dropping back to about 8,000 in 1998 (Mair and van Biezen 2001, 19). Even a party of more comparable size such as New Labour saw a significant rise in party membership in the mid-1990s, before it fell again after taking power (see Chapter 8).

The timing of the SAP's membership losses presents a problem for the sociological explanation for membership losses. Widfeldt's research reveals that, although individual membership figures were apparently stable in the years between 1974–1991, after accounting for the discrepancy between 'genuine' members and total members under collective affiliation, membership did indeed decline. While it is impossible to know by how much membership fell, he argues that it certainly stabilized from 1991–1994, after which it began to decline (Widfeldt 1997, 91). Similarly, another account has it that SAP membership rose from 259,000 in 1992 to 260,000 in 1995, but then fell to 203,000 in 1997 and further to 153,000 in 2002 (cited in Bergman 2004, 213). In other words, membership was stable in the first part of the 1990s, but fell dramatically by around 40 percent between 1995–2002, a trend that appears to be inexplicable according to sociological factors. The SAP itself (see above) referred in 2003 to declining membership over only the past 'ten years'. An explanation more plausible than the sociological one is that membership stabilized in the lead-up to the party's re-election in 1994, but then fell out of disappointment with the neo-liberal medicine that the SAP prescribed upon its return to power, and which cost it dearly at the 1998 election. This is a scenario not dissimilar to that which applied to New Labour before and after its 1997 election victory (see Chapter 8). While the evidence in this case is more circumstantial than in the others, the disaffected member thesis is the most plausible one in terms of the capacity to explain declining membership in the 1990s.

Rather than simply being rooted in structural causes or social trends, the sharp nature of the SAP's membership decline in the 1990s is undoubtedly related to the discontent caused by the party's abandonment of its traditional social democratic policy approach for a neo-liberal one. This may have contributed to earlier membership losses, since the SAP's neo-liberal trajectory commenced prior to the 1990s, but it is impossible to know by how much. What is clear, however, is that since the 1990s there has existed an internal SAP opposition which is convinced 'that the party has betrayed its ideals and its voters'. The SAP has also faced internal 'resistance' to its public sector reforms, and members have resented the policy changes that have weakened party-union connections (Widfeldt 1999, 315, 322, 324). According to Aylott (2003, 387), the economic reforms enacted since the end of the 1980s had 'estranged the unions, but also the party's rank-and-file

members, from the leadership'. As a result of these policy trends, Svensson (2001, 226) suggests, many members 'are not proud of being social democrats'.

Related to this is the lack of a social democratic identity. As the Swedish parties have become less ideologically distinct, this has contributed to a decline in party identification (Schmitt and Holmberg 1995, 114). Recall Braunthal's argument in the case of Germany that the perception of diminishing differences between the parties could explain the trend of declining membership in the SPD as well as its competitor parties, since membership serves less purpose when the parties no longer are distinctive (Braunthal 1994, 353). For SAP parliamentarian Margareta Israelsson, the declining membership problem is partly related to the weaker party-union links, and to the fact that Swedish people find it increasingly difficult to determine 'what is left and what is right and what is in the middle'. Israelsson claimed that some members ask: where are 'the social democratic ideas? I can hear them saying that. They [the parties] all look the same today' (Israelsson 2005). Aylott refers to the 'widespread impression among its remaining members of a loss of ideological integrity during the 1990s'. In combination with the loss of affiliation with the trade union movement in the form of collective membership, this made the party look like a 'voter party' which prioritized electoral gains over policy (Aylott 2003, 373, 374, 388). It was clearly shown above, however, that neo-liberal policies have been costly in terms of votes, too.

An additional factor in the case of Sweden, and which would explain the timing of the post-1994 decline, is the great deal of angst within the party over European integration. Borrowing from the work of Arter, Miles (2000, 219, 220) argues that integration provided a 'significant source of internal party friction in the mid-to late 1990s'. According to Nilsson (2003), when the SAP government in 1990 reversed its position on accession there was no attempt at consultation with its membership and 'the proposal that Sweden should join the EU was sneaked in as just one point among many in a political crisis package put before parliament'. Aylott (1997, 128) argues that anti-accession sentiment was strongest at the grass-roots level. Opinion polling in 1992 revealed that less than a quarter of SAP members were in favour of full EU membership, with 47 percent against, and 36 percent unsure. Other surveys suggested 'a clear elite versus 'grass roots' split within the party', and that a decisive majority of party members were opposed to Sweden joining the EU; only half the SAP's membership went on to vote for EU membership at the referendum in 1994 (Miles 2000, 226, 228, 229).

Lending further credence to the suggestion that EU-related issues have been a factor in membership decline was the post-referendum call by some inside the party for the establishment of a breakaway anti-EU social democratic party (Widfeldt 1996, 116). The SAP leadership's support for joining the common currency at the 2003 referendum (see above) also is likely to have deepened membership discontent. SAP International Secretary Ann Linde (2005) concedes that half the party activists and social democratic voters are critical of the EU and 'we have clearly not been able to explain why the party elected people are in favour'. EU debates intersect with the wider argument over the party's direction in the sense that for the 'modernizers' integration is part of the wider project of reforming the Swedish Model, whereas for

the traditionalists it poses a threat to the 'principles of Swedish social democracy' and the future of the welfare state (Miles 2000, 237).

## Increased Support for Political Alternatives

### *Losing Votes to the Left*

In addition to electoral setbacks and declining membership, the SAP's neo-liberal policies have led to increased support for political forces to its left. There is no doubt the Greens in Sweden have obtained some of their support from former SAP voters. For our purposes, however, we will concentrate on other forces to its left that have more clearly benefited from the perception of SAP betrayal of social democratic values, and which are most closely related politically to the traditional social democratic support base, such as the Left Party and some smaller splinter organizations.

The Left Party [Vänsterpartiet] is the product of the split in the SAP following the 1917 Russian Revolution. Although renouncing Communism, its residual class and left politics have enabled it to grow on the basis of disaffection with social democracy in a similar way to that of the German PDS. At the 1998 election, when the SAP vote dropped by almost 9 percent, the Left Party saw its vote more than double to 12.9 percent. A large share of the Left Party's increase in support came from former SAP supporters. The Left Party's support among LO voters rose to roughly 20 percent from 4 percent in 1994, while the social democrats' support among LO members fell from 66 percent to 52 percent (Möller 1999, 266). SAP think-tank leader Anne-Marie Lindgren conceded that most of the voters lost by the SAP went to the Left Party (Lindgren 1999, 47, 50). The SAP's declining share of the working class vote is significant in light of Scandinavian social democrats' reputation for maintaining the support of their working class and lower income constituents (Pacek and Radcliff 1999, 299).

The Left Party's appeal to erstwhile SAP voters is based on its 'ideological critique of capitalism; their advocacy of state ownership of key industries, banks, and insurance companies; and their strong support for welfare provisions' (Hancock 2003, 370). It campaigned at the 1998 election in favour of a shorter working week, bigger taxes for companies earning high profits, and more public sector employment (Madeley 1999). The Left Party posed an 'ever more attractive alternative to working class voters who feel alienated by the economic policy pursued over the last five years' (Lindgren 1999, 47, 50).

The party's stance on European issues may also explain part of its appeal. At the 1998 election, it called for an early referendum on EMU, and a further referendum on EU withdrawal contingent on the result in the first (Madeley 1999). Along with the Greens, it is considered to be the most anti-EU of parties (Rydgren 2002, 41). This is significant, given the well of opposition to the EU among SAP members and supporters. The Left Party attracted working class voters by presenting itself as the best defender of Swedish social democratic entitlements against EU-driven retrenchment (Lindgren 2005; Einhorn and Logue 2003, 107). Only 10 percent of

Left Party voters were in favour of Sweden's membership in the EU, compared to 79 percent against (Lindahl, cited in Rydgren 2002, 41).

A sense that the Left Party stands for things once synonymous with the SAP is evident in parliamentarian Pär Axel Sahlberg's (2005) description of it as 'a social democratic party of 15 years ago'. Arter (2003, 98) writes that a concern for the poor, unemployed, socially excluded, the elderly, immigrants and young families once was 'a social democratic project. However, it is the newer parties to the left of the Social Democrats that have appropriated the historic social democratic values of community, equality, solidarity and a caring concern for all members of the "people's home"'. Those who switched from supporting the social democrats to supporting the Left Party now looked upon the SAP as a party of the centre rather than of the left (Möller 1999, 275).

Despite these clear gains at the expense of the SAP, the Left Party's vote has been in decline since 1998. Its support in 2002 fell by 3.6 percent to 8.4 percent. This was still historically 'one of the best results the party has recorded', but considerably less than it had planned for (Möller 2002). It fell further still, however, to 5.9 percent at the 2006 election, and if its support drops by the same amount at the next election in 2010 it will fall under the 4 percent barrier required for entry to the Riksdag. Crucially, in 2006 the Left Party gained no votes from the decline in support for the SAP (Aylott and Bolin 2007, 629).

Unlike the Left Party in Germany, the Swedish variant has the problem of being tarred with the same brush as the SAP in view of its coalition-like relationship to the government. The political convulsions that have benefited the Left Party in Germany – including mass protests, strikes, and effectively a significant split in the SPD – have not been present in Sweden. Internal factors may also be involved. The loss of Left Party leader Gudrun Schyman[9] has no doubt harmed it. There were other defections, including Party Secretary Pernilla Zethraeus, and in early 2006 there was talk of setting up a New Left party (*The Local* 2006d). All this points to the fact that disillusionment with social democracy is not sufficient for minor left parties to grow, and that agency is critical (a point to which we shall return in Chapter 13).

While the Left Party has been the main beneficiary of disillusionment among social democratic supporters, there have been other signs of growth for left-wing forces related to the SAP's abandonment of social democracy. In 1990, 'a (short-lived) splinter leftist party [was formed], which castigated the "inverted Robin Hood politics" of robbing the poor to feed the rich and [the SAP's] failure to protect the welfare state' (Arter 2003, 90). According to Sparks and Cockerill (1991, 103), 'its leadership advocates left reformist solutions to the crisis' and 'initially attracted considerable support from workers'. Union activists inside the SAP were responsible for launching the party, whose aim was to put forward more authentic social democratic policies, including tax reform and proposals for economic democracy, in order to compete with the SAP to attract working-class voters (Arter 1994, 88, 89).

At the 2002 election an SAP splinter group, Norrbottenspartiet, gained 9.2 percent of the vote in Sweden's northernmost constituency, Norrbotten. The party

9 Schyman left the party in 2004 and in April 2005 established her own party, the Feminist Initiative.

was comprised mostly of discontented SAP supporters (Bergman 2004, 222). At the 2006 election, some four new parties stood for election: the anti-European June List, the Feminist Initiative, a Healthcare Party, and a pro-internet file-sharing party, the Pirate Party. While each achieved no more than 0.7 percent, together they received a significant 2 percent (Aylott and Bolin 2007, 626, 629). Among these, the Healthcare Party is most clearly related to the death of social democracy. It campaigned against hospital closures and for health spending to be increased to 10 percent of GDP (*The Local* 2005; Aylott and Bolin 2007, 626). Such a single-issue party is unlikely, however, to be able to provide a long-term alternative to the SAP given the narrow range of its focus.

*A Far Right Resurgence?*

Successes for the Far Right in Sweden have been minor and sporadic, mainly confined in the 1970s and 80s to local successes (Rydgren 2002, 33). Like elsewhere, however, the Swedish Far Right has gained ground during the 1990s. It achieved a breakthrough in 1991 when the xenophobic, populist New Democracy won 6.7 percent of the vote and 24 seats in the Riksdag. Along with the Conservatives, the SAP was the party from which New Democracy drew most of its votes (Blomqvist and Green-Pedersen 2004, 605). While the *volte face* on EU membership and other factors were involved, Ignazi (2003, 158) also notes that New Democracy came upon the scene 'when the social-democratic-led government introduced approximately the same, vituperated, fiscal program as the bourgeois government'. New Democracy's success was short-lived, however, as it failed to gain parliamentary representation in 1994 after its share of the vote fell to 1.2 percent (Hancock 2003, 374).

More recently, the Sweden Democrats have gained prominence. The Sweden Democrats have roots in different political formations, such as the racist Keep Sweden Swedish party, as well as ties with other Far Right parties in Europe. Some of its leading members have histories with Nazi or racist organizations (Rydgren 2002, 34). The Sweden Democrats have proposed pre-schools for ethnic Swedish children only, and have suggested that immigrants be paid money to leave Sweden (O'Mahony 2007; Savage 2006c). While at the 2002 election they scored only 1.4 percent of the vote, they were the largest party not to gain representation in the Riksdag. Furthermore, the number of council seats under their control rose from eight to 49 (Peter 2006).[10] In 2006, the Sweden Democrats again failed to gain entry into the Riksdag, but they more than doubled their vote to 2.9 percent, and are now within reach of the 4 percent barrier for 2010. At the same time, they increased by five times their representation at the local level, giving them positions on almost half of Sweden's councils (Aylott and Bolin 2007, 629, 630). In the southern town of Landskrona, the party won over 22 percent of the vote (*The Local* 2006a). This success at the local level earned the party more than 45 million kronor in funding, in addition to the granting of state support for gaining more than 2.5 percent of the vote in the national election (*The Local* 2006e).

10 Elections for these are held on the same day as national elections.

The link to disillusionment with social democracy was partly evident in the fact that over 4 percent of LO voters supported the Sweden Democrats at the 2006 election, enough for the party to gain representation in parliament if this level of support had been generalized. This number may be small at present, but it was of grave concern to the LO leadership (*The Local* 2007b). Tsarouhas (2006, 94) commented on the 2006 election that:

> Although the far-right did not manage to enter Parliament, its populist language and attempt to scapegoat immigrants for diverse social problems resonated well with the electorate at the local level. Social democracy cannot longer afford to ignore the issue and the far-right parties exploiting real concerns.

Rydren argues that Far Right parties in Sweden have not succeeded thus far for a range of reasons: class loyalties in the electorate are relatively entrenched, and party identity has not fallen as much as elsewhere; immigration has not been as pivotal a question as in other countries; and convergence in political space has occurred to a low degree.[11] The failure has also been on the 'supply-side', in particular insufficient appeal of the Far Right parties (Rydgren 2002, 47–49).

In the case of the latter, as was argued in relation to Germany, changes in political and economic circumstances can make previously unattractive forces appealing, in which case the Sweden Democrats could capitalize on the base they have developed even in the short time since Rydgren put forward this analysis. Furthermore, Rydgren argues that there are opportunities for the Far Right to grow in the near future: there is widespread xenophobia; there exists a high level of distrust of politicians and political institutions, with abstention rising amongst workers and the unemployed; party identification is declining; and there is a potential niche for a right-wing anti-EU party (Rydgren 2002, 47–49). Perhaps evidence of the latter is the Eurosceptic June List party, which in 2004 European elections received 14 percent of the vote (Mellows-Facer, Cracknell and Yonwin 2004, 69). Undoubtedly, this was made possible by major party convergence on integration.

Economic conditions are also conducive to Far Right success. As was noted earlier, the neo-liberal policies of the SAP have resulted in significant increases in poverty and disadvantage, and inequality has risen since it returned to power in 1994. Carlsson and Lindgren (1998, 96) wrote that life in Sweden in the 1990s resembled the 1890s in terms of a feeling of 'pessimism about the future in many walks of life, a pessimism born out of the problems which the process of change creates, and which people feel they see no solution to'. The SAP (2002) in its 2002 Election Manifesto noted the higher instances of 'stress – at work and in everyday life. There is the worry of falling victim to crime or of not getting proper care in time. All too many people feel that our society is becoming colder and harder'. Pär Nuder (2003) noted that unemployment, social service and welfare cuts, and higher inequality was 'sowing distrust at its most extreme. Racism, anti-Semitism, anti-Islamism, is finding support'. Carlsson and Lindgren (1998, 102) warned of the threat emanating

11 Rydgren (2002, 47) himself notes problems with measuring this on the basis of voters' self-perceptions about where they sit on the political spectrum, and as was argued in the previous chapter, there is some evidence of convergence around neo-liberal policies.

from increasing rates of inequality, which lead people to feel that they were excluded from society. This in turn 'creates dangerous tendencies on the part of people to position themselves outside the rules and norms which hold in society'.

The distrust in politics and politicians in Sweden from which the Far Right can benefit is evident in high rates of abstention. The poor turnout figure for the 1998 election of 81.4 percent (close to the turnout figure in 2006 of 82.0) provoked Möller to warn that a 'sense of meaningless, of individual and institutional powerlessness, seems to be spreading also to social groups that have traditionally had a fundamental trust in the political system'. Some of those who abstained did so, he argued, out of disappointment with the SAP's right-wing economic policies during the 1994–1998 period (Möller 1999, 273, 275). Later research revealed that groups from disadvantaged backgrounds – and by implication traditional SAP constituents – were prominent among those choosing not to vote (Möller 2002; Holmberg 1999, 114). The same people may also be susceptible to the appeal of the Far Right. In 2000, abstainers (52 percent) were more likely than voters (43 percent) to be enthusiastic towards the idea of receiving 'less refugees in Sweden' (Holmberg, cited in Rydgren 2002, 46).

These conditions mean that, while the Far Right is yet to enjoy a parliamentary breakthrough, its presence has been felt on the streets. During the 1990s, some 16 homicides against gays, immigrants and others were linked with fascists, including the murder of trade union leader Björn Söderberg in 1999 (Sonde 2000). The latter provoked demonstrations involving 40,000 people, reputed to be the largest anti-fascist protest in Sweden since the war (James 1999). The *BBC* (2000) reported that 'in recent years the country has seen a wave of neo-Nazi violence – including murders and bombings which have targeted immigrants', and that there existed 'an organised underground of white supremacist youth who conduct such attacks'.

## Conclusion

As a party capable of winning government, the SAP may continue to be relatively successful, benefiting as it does from a historically divided Right. While rhetorically there was evidence of a move to the left under new party leader Mona Sahlin (cited in *The Local* 2007a), the SAP will come under further pressure to dismantle the welfare state, particularly when it returns to government. Talk by some commentators of a 'post-neo-liberal politics' in the aftermath of the 2006 election characterized by the Right's acceptance of social democratic measures (Tsarouhas 2006), looks in retrospect to have been heroically optimistic in light of the Alliance's neo-liberal reforms since coming to power, including privatizations and cuts to sick and unemployment benefits. Yet, even at the time it was clear that the trend towards the running down of the welfare state would continue with or without the SAP in power. Social democratic thinkers foresee continued pressures on the Swedish welfare state. For instance, Carlsson and Lindgren (1998, 74) argued that pressures on government finances forced the SAP into making cuts in the 1990s, and suggested that 'these problems will continue during the coming decades when the requirements of the educational sector as well as the need for elderly care make for increased demands

on available resources'. A desire to capitalize on public discontent with some of the Alliance's neo-liberal reforms may see the SAP make some rhetorical shifts, but it is unlikely to retreat from the policy trends evident when it was in power. Indeed, economic spokesperson Pär Nuder dismissed in a leaked internal memo the suggestion that the SAP could repeal the cuts on its return to power on the grounds that it could not raise the taxes necessary to finance them (cited in Savage 2007). Even higher economic growth is not likely to change this because, as we saw earlier, there is a commitment to 'sound public finance' that involves not raising expenditure to a level that cannot be sustained during a recession. If a recession does occur, these pressures will grow manifold.

Aside from these economic pressures, the SAP now faces a more competitive political rival in the form of the Alliance, meaning that employers have a political alternative to the SAP. This, in turn, could put more pressure on the SAP to promote neo-liberal policies in order to appeal to the business sector, whose support may not be necessary for election, but is critical to social democrats' ability to govern (Miliband 1974, 137). The absence of a strong alternative to the left on the other hand also means less pressure to move back to the left.

If, as is likely, the SAP continues its neo-liberal journey, the crisis of Swedish social democracy will likely deepen as voters and members search for new political solutions, or become disillusioned with politics altogether. Arter argued in the early 1990s that the SAP needed to 'champion a radical cause' if it was to 'avert a possible crisis of identity within the social democratic movement as a whole'. In light of the 'democratic distance' between Swedish people and political elites in Stockholm and Brussels, the SAP would need to develop a 'bottom-up' economic policy in order to 'rekindle enthusiasm for social democracy as a genuine popular movement' and combat claims that it does not have a radical agenda (Arter 1994, 93).

The Left Party in particular has been the main beneficiary of the decline of Swedish social democracy, but its falling share of the vote and internal problems raise large doubts about its capacity to offer a permanent home for disaffected social democrats. Alternatively, a new formation could emerge – either from outside, or as a splinter grouping from within. But whether these can succeed, and whether the SAP's hegemony in the working class and broader Left can be challenged, is another matter. What happens depends partly on the actions of the SAP but also on the actions of the alternatives, in particular their ability to put a clear and viable alternative to neo-liberalism cognizant of the pressures that have undermined social democratic reformism, and with a clear strategy to address them.

Conditions for future Far Right success, alas, are also present. It is yet to record a sustained breakthrough at the parliamentary level, but many of the preconditions for Far Right success exist in Sweden. There is no way of knowing whether or not the Sweden Democrats will forge ahead or go the way of New Democracy, but for the moment the party's trajectory is upward, and the objective conditions are ideal.

# Chapter 13

# Conclusion

## Commonalities and Contrasts

To varying degrees, all the social democratic parties examined in this book have embraced neo-liberal policies aimed at liberating capital from controls and opening up new opportunities for investment. Absent is any traditional social democratic agenda to reduce inequality and restrain capitalism. In all countries, there has been disassociation from organized labour and in most, if not all, a closer relationship with business has been sought. The revolutionary left has frequently been derided as utopian by social democrats, but it now seems equally utopian to hold out any hopes that social democrats will make society fairer and more just.

While numerous factors have been identified as injurious to the social democratic project, it has been shown in each case study that the fading of the long boom was the leading reason for social democrats' abandonment of aspirations for reform because the economic base underpinning redistributive programmes was stripped away in the process. But equally important to the fiscal effect was the political impact of no longer being able to implement policies that simultaneously appeased their working class supporters and met the needs of capital accumulation. In terms of the political consequences, too, all of the parties have been plagued by electoral setbacks and leakages to other parties.

There are, however, also notable contrasts potentially critical to the way in which events unfold in the different countries. The factors shaping these contrasts allow us to draw conclusions about the future political consequences of the death of social democracy. Among these contrasts, there have been differences in the forms and degrees to which traditional social democratic politics have been abandoned, although it is not clear that these differences constitute an important factor in the political consequences that have emerged. For instance, while many would argue that New Labour in recent years has embraced neo-liberalism more wholeheartedly than elsewhere, it is the SPD that appears to have fared worst. This is despite New Labour's joint architecture of the invasion of Iraq, which was politically devastating for New Labour and Blair. That the SPD has fared worst is apparent if we consider not just the monumental electoral backlash and the emergence of a mass movement on the streets, but also an effective split in the SPD and formation of a rival new Left Party that enjoyed the support of nearly a million former SPD voters.

In explaining the SPD's predicament, perhaps we should consider the fact that its return to power after 16 years in Opposition arguably built up hopes of change, only for them to be wildly dashed by the policy outcomes. Though it did not suffer some of the consequences its German counterpart did, perhaps the speed with which New Labour fell out of favour also may be explained by this failure to deliver change after

coming to power. Even in the case of the SAP, which has been far more electorally successful, its return to power in 1994 followed by an austerity programme had a marked effect on its voting support in the 1998 election, and led to big leakages to the Left Party. In the case of the ALP, being in Opposition for over 11 years has somewhat insulated it from the problems suffered by the other parties in recent years, though it has clearly lost votes to the Greens during this stint in Opposition. Furthermore, its implementation of neo-liberal reforms in government in the 1980s and 90s meant that the pattern of leakages to other parties and declining support was evident earlier.

Perhaps a more important contrast than the timing of power, and which explains the SPD's deeper problems compared to the others, lies in the political and economic climate in Germany. The political temperature has clearly been hotter here than elsewhere, with big demonstrations, a split in the SPD, the growth of neo-Nazis, and mass unemployment. Undoubtedly, the combustive political situation and the explosive impact of social democrats' decisions in Germany have much to do with its economic problems post-unification. The economic performance of Germany since the early 1990s has been particularly bad, putting even greater clamps on what the SPD can do in office relative to social democrats elsewhere. The deep economic crisis and very high rates of joblessness have in turn made the electoral setbacks for the SPD all the more spectacular, and made the evidence for a link between membership decline and its neo-liberal policies all the more dramatic. The emergence of the Left Party and improved prospects for the neo-Nazis are arguably also in part responses to this more acute economic crisis, which has a tendency of opening people up to more radical alternatives. In the case of the Left Party, the political context of mass protests and somewhat of a revival in industrial struggles underpinned its support. It is highly likely that the sort of economic depression apparent in Germany, if combined with policies of the kind implemented by New Labour or the SAP, would have brought much greater political consequences in the latter two parties' countries. This argument should not be taken too far, because many of the political consequences evident in Germany are also apparent – though to lesser degrees – in the other case studies. What this reveals is that national economic conditions do shape some of the political consequences in individual countries. At the same time, global economic decline and weak national conditions relative to the post-war period mean that such variations in national economic conditions (e.g. Germany *vis-à-vis* Britain) do not prevent the death of social democracy and the emergence of political consequences altogether.

If variations in national economic conditions do, however, contribute to greater and more visible political consequences, it can be said fairly certainly that another factor in this is the strength of social democracy's political opponents. New Labour has benefited from the meltdown of the Tories, and the SAP has historically been a 'dominant' party that has benefited from a divided Right. Arguably the weakness of the Tory Opposition allowed New Labour to escape the full cost of its neo-liberal policies and the Iraq invasion. The SAP's sharp decline in support did not cost it government at the 1998 election because it was still a relatively 'dominant' party. The SPD, on the other hand, has not been so fortunate, particularly in light of the emergence of the Left Party.

An additional factor that has shaped political consequences has been the actions of alternative political forces, particularly those on the left. Lafontaine and the Left Party in Germany have been more successful than any of the left minor parties in the other countries. The ability to articulate a clear alternative to the SPD that fits with the broader radicalization in German society has been an important factor in the Left Party's success. Lafontaine's position as a former finance minister and SPD leader, and the Left Party's ability to recruit former leading elements of the old party, undoubtedly gave it greater prominence and recognition. It is not predetermined that the neo-liberalization of social democracy will automatically lead to growth in successful minor parties. In short, agency matters.

The importance of agency also emerges from any discussion of the impact of electoral systems. The majoritarian system of Britain has made it more difficult for parties to the left of Labour to grow – and indeed the electoral system helped reduce the damage to New Labour arising from the unpopularity of its policies – while in Germany the Left Party had only to surpass the 5 percent barrier to gain representation in the Bundestag. The Greens of Australia gained greater representation, increased momentum, and a higher profile largely because the PR system in the Upper House allowed them to: had the majoritarian system of the Lower House also been in use in the former, the story might well have been very different.

It would be mistaken, however, to place too much emphasis on electoral systems. The Swedish Left Party's electoral trajectory at present is in the opposite direction to that of its counterpart in Germany, despite having similarly low barriers to entry into parliament, and despite the disillusionment that exists with the SAP. Partly this is because the Left Party in Germany has been independent of government in a way that its Swedish counterpart has not. In the latter's case, there have also been recent defections by key leaders and talk of a potential split. On the other hand, while stressing the importance of agency, it must be acknowledged that the objective conditions of growth for alternative forces have been very good in Germany: deep economic crisis, evidence of wider radicalization in society, and splits in the SPD. The defection of figures such as Lafontaine are more likely in situations of major economic convulsions and high unemployment.

The Far Right parties' ability to succeed has been impacted on in similar ways. None of the parties has managed to make a breakthrough in the national parliamentary arena, with successes to date in Britain, Germany and Sweden being confined largely to local and regional levels. PHON in Australia did manage to gain around 8 percent of the vote in the 1998 federal election, but this translated into no Lower House parliamentary seats. This was roughly the same proportion of the vote won by the Left Party in Germany, but in the latter's case the result was 54 seats in the Bundestag. The electoral system in PHON's case was therefore an obstacle to its success. On the other hand, PHON may have benefited from compulsory voting, for without it, as Brett (1998, 27) has argued, many of the people who voted for it may have opted out of voting altogether (the same could be said, of course, for the Australian Greens). Optional voting in Britain, Germany, and Sweden may, according to this logic, mean that many people who might vote for minor parties end up abstaining instead. Thus, electoral and voting systems seem to be factors in the fortunes of the Far Right parties. More generally, it is also the case that the volatility and instability of politics

may be impacted on by PR systems, which give voice to small, radical forces in a way that is not true of majoritarian systems.

The ability of the Far Right parties to press ahead and capitalize on discontent with neo-liberalism does also, however, depend on objective economic conditions: the NPD in Germany has fertile ground in the dilapidated states of the Eastern part of the country, and more generally the very high unemployment and sclerotic growth of recent years. Nevertheless, agency is again important. Division and disunity did play a role in the downfall of PHON. In this case, though, it is not known to what degree this division and disunity was a product of frustration with its inability to gain parliamentarian representation in spite of the high support it received.

The ability of the Far Right to succeed will depend also on what the left does to combat the Far Right parties, and on who can more effectively capitalize on the discontent with neo-liberalism. The potential audiences of the radical left and Far Right may not be exactly the same, but in many cases (e.g. PHON and the Australian Greens; the NPD and the Left Party) there is overlap. What this brief discussion shows is that objective conditions are good for the growth of alternatives to social democracy in all of the countries studied. The success of these alternatives will be shaped to some degree by economic conditions and institutional factors such as electoral systems, but agency is also critical.

## The Post-Social Democratic Future: The Possibilities of Radical Change

There is no longer a social democratic alternative to neo-liberalism, and the economic foundation on which such an alternative could be built no longer exists. Yet, the parties bearing social democratic names continue to live and breathe, and therefore those who wish for an alternative politics to neo-liberalism still need to confront these neo-liberalized social democratic parties, and attempt to put forward an alternative to them. This is made all the more urgent by the emergence of Far Right parties threatening to capitalize on the lack of choice in mainstream politics.

Alas, the left parties are not uniformly equipped to challenge neo-liberalism. Recall the German Left Party's policies, including shorter working hours, a minimum wage, increased taxes on the wealthy, a reversal of labour market deregulation, and increased welfare spending. The Left Party in Sweden has espoused similar policies. The Greens in Australia have advocated policies hostile to neo-liberal globalization, and have even developed policies more union-friendly than has the ALP. Yet, they are not a left-socialist formation with any historical antipathy towards capitalism. As well as the challenges for them identified in Chapter 6, Moschonas (2002, 256) argues that Green parties' diverse electoral following, and the fact that they 'are not distinguished by a common mode of life based on collective – and collectively shared – values' have made them prone to compromise and easy absorption into the system. The German Greens are, of course, a dramatic example of this. In the UK, the Liberal Democrats, the biggest beneficiary so far of New Labour's shift to the right, possess no ongoing anti-capitalist politics, and the extent to which they can be classified as left-wing is open to question. Respect is on the left and is much closer to

the historical tradition of social democracy in terms of its policies, but it is too small yet to be considered a threat to New Labour.

Thus, the brightest prospects are for the Left Party in Germany. The Swedish Left Party appears to be in trouble. The Australian Greens' ability to pose a long-term challenge to neo-liberalism is in some doubt. This is even more so in the case of the UK Liberal Democrats. In these and in other countries it may be that the parties capable of posing a long-term challenge to neo-liberalism are yet to emerge. One obvious challenge for any such parties relates to their ability to win the necessary support among the population. The speed with which the Left Party in Germany grew and the success it achieved in its first election shows the possibilities of capturing public sentiment, though admittedly in somewhat exceptional political and economic conditions (see above). Undoubtedly, a core of social democratic supporters will remain, and not until they see a visible and persuasive alternative in the form of mass social movements or left-wing parties will they contemplate leaving. Staying united and maintaining ideological distinctiveness *vis-à-vis* the social democratic parties is critical, particularly in the context of polarization that characterizes many countries. Indeed, the 'vacuum' thesis holds that in terms of ideological distinctiveness and overall success at exploiting the rightward shift of social democracy it is better for the left challenger to be out of power and therefore uncompromised (Patton 2006, 214).

This raises additional questions about strategy. In order to succeed in the long-term, any left opposition to social democracy will need to grapple with the reasons for the latter's inability to achieve major social change. Some will argue that the Left Party in Germany does not have to implement its policies in the face of concerted resistance from powerful sectors of society and the economy. Former ALP minister in the Whitlam government Jim McClelland (1988, 136) noted that the tone of the party was more radical prior to winning office in 1972 than after: the 'luxury of doctrinal purity is easily afforded by politicians when they have no chance to put their noble solutions of society's ills into effect' compared to when it is 'put up or shut up' time. Callinicos writes that any opposition to neo-liberalism at the national level would confront 'an extremely powerful constellation of social forces, embedded in the existing structures of globalized finance and transnational investment and backed up by the US and the other leading capitalist states'. Such a challenge would be unlikely to succeed 'except as part of an international movement and through tremendous upheavals' (Callinicos 2003, 120, 121). Clearly it is not merely a lack of will that has prevented social democrats from implementing reforms. Even the PDS in coalition with the SPD in some German Länder has presided over neo-liberal policies at odds with its platform. How this problem can be avoided on a larger scale needs to be fleshed out.

An additional question relates to the withering of the economic base on which traditional social democratic policies rest, and the deeper problem of which this is merely a symptom, namely the tendency towards a declining rate of profit. The circumstances in which leftist policies could be implemented without undermining the needs of capital accumulation are gone. As Hay (1999, 71) argues, the 'Keynesian welfare state is gone. The post-war settlement cannot be resurrected. An alternative vision is required'. This is arguably one reason why initial leftist responses to social

democracy's shift to the right in the 1970s and 80s (see Callaghan 2000, chapter 3) did not succeed: they failed to realize adequately the changes in capitalism and the problems this posed for reformist solutions. Policies such as those espoused by the Left Party in Germany are not fundamentally different from those put forward by the left inside British Labour in the late-1970s. Understanding why the left did not succeed then, is important to any challenge to social democracy now.

The question of the state is also important. An idealization of the state as counterposed to the free market is not the answer. As Panitch (2000, 7) argues, the backlash against neo-liberalism has led some to engage in a 'remarkable idealization of the state as the repository of community values and societal needs'. The state capitalism of the Soviet Union possessed no socially superior facets to that of market capitalism in the West (Cliff 1988). The problem is the broader system of capitalism – a system of states and capitals competing to maximize surplus value – of which neo-liberal capitalism is just one variant (Ashman 2003).

*Chavez and Venezuela*

The case of Chavez and Venezuela are relevant to this discussion of the possibilities of radical political change and dealing with resistance to it. While this example does not support the idea that social democracy can be revived (see Chapter 2), it does show that neo-liberalism can be challenged. This is not simply a case of the Venezuelan government's staunch opposition to neo-liberal policies and determined implementation of more interventionist policies in the face of structural pressures. Chavez has faced much of the resistance mentioned above, and any successes have been achieved, as Callinicos predicted, 'as part of an international movement and through tremendous upheavals', including an attempted coup against him. The mass movement in Venezuela and the AGM internationally, with which Chavez has aligned himself, have helped push Chavez to implement progressive programmes.

But the long-term success of opposition to neo-liberalism in Venezuela is by no means assured, and herein lie the lessons for other left alternatives to neo-liberalism. Like all leftist governments he has not been able to avoid the pressures of compromise. Chavez, after all, holds power in what remains a *capitalist* state (Denis 2006). One Latin American leftist commentator has described Chavez's policies as neo-liberal, in part because of the concessions that were offered to US oil multinationals (Petras 2003b, 25). Chavez, according to an avid admirer, Tariq Ali, understood that we are not in 'the epoch of proletarian revolutions, but the beginnings of 'a process of "rethinking socialism"'(Ali 2006, 58).

The oil revenues and high growth of recent years give Chavez more room to manoeuvre and make it easier for him to concede to popular movements, but this will change considerably if the oil revenues dry up and growth slows. If Chavez remains intent on redistributing wealth when conditions change – because no boom is permanent, and the price of oil will not remain at record highs forever – or even if the government simply extends the social programmes too far in the current conditions, a confrontation with capital is likely. This outcome of this is not certain, but there is the prospect that it could end, like many other left reformist projects, in retreat and backdown. There is evidence to suggest that things have been moving to

a head in Venezuela, with Denis (2006) arguing that Chavez's regime is akin to a 'Bonapartist' one, playing a balancing act between the mass of the poor who desire a continuation of the reforms, and capital, who want more business-friendly policies. How this evolves remains to be seen, but the question of strategy and the role of the mass movement are important. Ali quotes Castro's advice to Chavez during the coup attempt against him in 2003: 'Don't do anything rash' because 'this continent does not need another [Salvador] Allende. Be very careful' (cited in Ali 2006, 68, 69). This implies that it was the radical nature of Allende's policies in Chile that were responsible for his downfall, when in fact it was more a failure of political strategy. Indeed, it was in part caution – evident in Allende's appointment of the eventual coup leader General Pinochet – and a more broadly reformist strategy that entailed illusions in the impartiality of the state that paved the way for the success of the coup. Moreover, Allende kept the mass movement demobilized, which smoothed considerably Pinochet's rise to power.

This example has implications for other radical left parties. The path of resistance to neo-liberalism will be a rocky one, filled with many potholes along the way. Yet, a mass movement – in the streets and, crucially, in the workplace, where economic power resides – is fundamental to any electoral challenge to neo-liberalism, which may otherwise come to nought. Mass movements are not sufficient, however, for parties remain critical.

*Social Movements: An Alternative to Party Politics?*

Burgmann (2004, 203) describes the AGM as 'the most successful response' to the Fukuyaman thesis yet. The AGM was a bright spot on the horizon after the bleak period of the 1980s and early 1990s (Mertes 2004, vii, viii). While composed of diverse groups with specific grievances, the AGM can be characterized 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 (Callinicos 2003, 14). Hand-in-hand with demonstrations at meetings of international organizations such as the WTO and the IMF has come a resurgence of intellectual critiques of global capitalism and liberal democracy, and the positing of alternatives (e.g. Albert 2003; Monbiot 2004; Danaher and Burbach 2000; Bello 2002).

The AGM is connected with the movement against the Iraq war, which in itself was of momentous significance: witness the *New York Times*' description of it as the only rival superpower to the US (cited in Barnes 2004, 5). Some eight million people marched worldwide in the 'first truly global mobilization' on 15 February (Ali 2003, 5). Approximately 600 cities in 60 countries saw demonstrations, including a two million-strong event in London (Kampfner 2004, 272). While the war in Iraq was a complex event with numerous causes, one object of it was to transform Iraq into a free market economy by imposing privatization, free trade, an openness to foreign investment and other neo-liberal policies – the very kind opposed by the AGM – on Iraq (see Chapter 7). This is partly why the war is referred to as the 'military side of globalization' (Zunes 2004). Economic issues related to neo-liberalism and globalization are strongly connected to states' use of armed forces to enforce stability, security and other appropriate conditions for capital accumulation in firms'

home countries and abroad (see Rees 2001). The war and the AGM are connected in an additional physical sense. Even Engler (2004, 1), who is sceptical about the connections between Iraq and globalization, accepts that 'many participants in globalization protests have also mobilized against the Bush administration's militarism'.

Perhaps the very strength and vitality of these social movements can provide the answer to the debauchery of elite party politics. Liz Davies held up as an inspiration in light of the lost cause of New Labour the 'Our World is Not for Sale' 'counter-conference' in London in 2000. The conference involved prominent anti-corporate and environmental campaigners such as George Monbiot and Susan George and a 'thousand (mainly young) people'. It was a 'crowd of people who really did want to change the world, and were prepared to get down to a serious discussion about how to do it' (Davies 2001, 190, 191). Similarly, former ALP leader Mark Latham (2005, 125) concludes that, because Labor is finished as a party of social reform, 'the best prospects for equality and social justice in Australia are likely to come from the work of social movements'.

The AGM and social movements more generally, however, have their own challenges and limitations. The AGM appears to be stronger in some parts of the world (e.g. Latin America and Europe) than in others (e.g. Australasia and North America). It also confronts important political questions about, among others, the nature of the capitalist state, what it stands for, and how social change can be achieved (Callinicos 2003, chapter 3). The movement has been characterized by an aversion to party and representative politics, and a sympathy towards less centralized leadership. This is exemplified in Holloway's (2002) book *Change the World Without Taking Power*. Harvey (2003, 189) notes that the movement was averse to 'traditional forms of labour organization such as unions, political parties, and even the pursuit of state power'.

Its neglect of organized labour is a serious weakness. Social movements, diffuse by nature, do not possess labour's economic power at the site of capital accumulation. While much commentary about globalization has tended to assume a weakened, if not entirely non-existent, working class, in fact there is evidence that organized labour has increased its power in certain strategic locations of the economy (Moody 2004). The working class is in fact growing (Harman 2002). While it is also assumed that unions have been in decline in recent decades, it should be remembered that the 1960s saw declining levels of unionism and in some cases talk of their demise, followed by a revival in the late-1960s and 70s (Callaghan 2000, 218, 219).

The AGM is not ideologically coherent, and in some senses its diversity is one of its strengths. But it also means that there are key strategic divisions within it over issues such as how to organize (for example, a party model *vis-à-vis* a network or 'swarm' approach with little ability to make and enforce decisions) and agency (the working class and trade unions *vis-à-vis* unemployed, women and other exploited groups) (Harvey 2003, 175, 176). The opposition of many elements within the AGM toward centralized forms of decision-making makes it difficult to resolve these questions, and then act upon them. These tendencies hampered its ability to respond decisively to the 'war on terror' and the Iraq war, and there was considerable division within the AGM over what emphasis – if any – to place on these issues in terms

of anti-corporate politics (Ashman 2003). Moreover, any capacity to attract more supporters in the struggle against neo-liberal globalization is made more difficult without a platform, a defined strategy, and clear ideological alternative.

Party politics would be impossible to avoid even if one wanted to. As Sanders (1998, 219) argues, the growth of activist groups in Britain had not 'usurped the traditional political role of parties as the articulators and aggregators of the many and diverse groups in British society … [P]olitical parties will remain the focus for groups intent on effecting major changes in British society and the British economy'. Those seeking to challenge the decisions and priorities of the political parties that staff the governments of the world will either have to join parties or form their own if they are to be able to act and respond to the initiatives of their opponents. With parties come organization, pooled resources, and shared knowledge and experience – all of which are critical to building opposition to the immensely organized and resourced institutions of the state and global capital. Social movements are not substitutes for parties, and should be seen rather as necessary accompaniments. The task is to combine the two approaches in a strategy that is cognizant of the challenges any resistance to neo-liberalism will face. Both can learn from each other: radical left parties would do well to embrace the internationalist and broad sweeping politics of the AGM, while the latter would benefit from the discipline, structure and organization of parties.

It is beyond the scope of this book at this late stage to venture into a discussion about alternative economies to capitalism.[1] Even if these radical parties and social movements are effectively linked, there is nothing certain about their success. What is abundantly clear is that social democracy and global capitalism do not work. In light of the threats posed by global warming, war and the growth of the Far Right, the success of alternatives to neo-liberalism has never been more pressing and vital.

1 For those interested in the discussion about alternative economic forms to capitalism, see the literature cited above. See also the debate between Michael Albert and Alex Callinicos on participatory economics at www.zmag.org.

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# Index