Explanations for the neo-liberal direction of social democracy: Germany, Sweden and Australia compared

Ashley Lavelle

Several explanations have been put forward as to why social democrats have adopted neo-liberal policies since at least the 1980s. Ideological trends, the consequences of globalisation and European integration, and electoral factors, all get a strong mention in the literature. This chapter suggests that a more persuasive explanation for social democrats' embrace of neo-liberalism lies with the end of the post-war boom in the early 1970s. Not only did the ensuing lower economic growth rates undercut the material base for the expansionary programmes of the post-war era, they rendered impossible the pursuit simultaneously of policies that reduced inequality and raised living standards *and* fitted the needs of capital accumulation. In the new economic context, neo-liberal policies were now required to open up business opportunities and remove the constraints on capital to enable it to flow into untapped areas of profit-making. This chapter begins by looking at the impact of the change in economic conditions on social democracy in general, before examining the specific cases of Germany, Sweden and Australia.

Social democracy and neo-liberalism

Social democrats have embraced neo-liberal policies since at least the 1980s. The various 'modernisations' and revisions of social democrats are discussed in succeeding chapters. Here we briefly spell out this chapter's approach to neo-liberalism in order to give a clear sense of the argument being made. 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 almost synonymous with the ‘Washington Consensus’, a term coined by economist John Williamson to refer to ten policies that now enjoy almost universal support in mainstream politics, including fiscal discipline, free trade, foreign direct investment liberalisation, privatisation and deregulation (Williamson 2002). Such policies strive to liberate capitalism and open up new areas for capital accumulation (Harvey 2006: 25, 26). In contrast, traditional social democratic policies aimed to reform and regulate capitalism in order to reduce inequality and prevent market failure. Neo-liberalism is pro-business, though not always ‘pro-market’ (Pollin 2003: 8). As Ashman (2003) puts it, neo-liberalism is not opposed to state involvement in the economy per se, but instead aspires to “‘freedom” for capital from state “interferences””. Neo-liberalism in fact deploys a strong state to protect private property and open up new areas for capitalist exploitation (Harvey 2005: 21).

This broader conception is preferable to interpretations of neo-liberalism that see it as designed simply to reduce the size of the state by cutting taxation and government spending. There is not one model of neo-liberalism. Ryner invokes the notion of left and right ‘poles’ of neo-liberalism, while Watkins refers to the ‘high road’, class warfare model pursued by the likes of Thatcher and Reagan, and the more common ‘low road’ where neo-liberal policies are imposed by ‘stealth’ (Ryner 2004: 98, 102; Watkins 2004: 26). It is therefore possible for two different governments to be neo-liberal. Just as there is not one version of neo-liberalism, social democrats have not embraced it in an identical fashion. 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).

Notwithstanding such national variations, the broader trend is clear. Former German Social Democratic Party (*Sozialdemokratische Partei Deutschlands* – SPD) Finance Minister Oskar Lafontaine (2000: 25) laments the fact that in Europe ‘we are now all neo-liberals and supply-side politicians’. The American version of free-market capitalism has been in the ascendancy (Stiglitz 2003: 4). In order to appreciate how neo-liberalism achieved the status of an orthodoxy, we need to examine the impact of the collapse of the post-war boom.

The end of the post-war boom

A range of explanations exists for the neo-liberal policy direction of social democracy. These include: ideological trends, which have been running in favour of free-market policies; economic globalisation and Europeanisation,

**Table 1.1 Economic growth rates for six major nations
(percentage increase per year)**

Country	1950–73	1973–97
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

which are widely interpreted as reducing the policy options available to government to a relatively uniform set of pro-business policies; and electoral factors that offer inducements for social democrats to target more affluent sectors of the electorate. Rather than discussing these in detail,¹ in what follows I will put the case for an alternative explanation based on the impact of the end of the post-war boom.

The boom that ensued after the Second World War represents, according to one historian, ‘the most dramatic, rapid and profound revolution in human affairs of which history has record’ (Hobsbawm 1994: 286). Rates of growth and accumulation did vary from country to country, but the advanced capitalist world was generally characterised 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’ of 1950–73 has been ‘by far the best [phase] in terms of growth performance’ (Maddison 2001: 125).

The boom ended abruptly in 1974 (see Tables 1.1–1.3).² The International Monetary Fund’s (IMF) 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 post-war period as to both magnitude and duration’ (cited in Hayden 1977: 7). From 1974 onwards, ‘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). Economic growth rates have been steadily declining ever since (Harvey 2006: 42). Brenner writes 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: 46). 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’.

Table 1.2 Annual average compound growth rate of per capita GDP

<i>Region</i>	<i>1870–1913</i>	<i>1950–73</i>	<i>1973–98</i>
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 1.3 Declining economic conditions (annual percentage change)

<i>GDP</i>	<i>1960–69</i>	<i>1969–79</i>	<i>1979–90</i>	<i>1990–2000</i>
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

Then British Chancellor Gordon Brown observed that the first three years of the twenty-first century had ‘seen the first simultaneous world slowdown for 30 years . . . and a downturn stretching across every continent for the first time since the 1970s’. He pointed out that even during ‘the world recessions of the early 1980s and 1990s world trade continued to grow by around 5 per cent a year . . . for much of 2001 and 2002 world trade barely grew at all’ (Brown 2003).

Growth has been much stronger over 2004–6, driven in part by the rising share of world GDP accounted for by high-performing China and India (Treasury Department 2006). But the ‘sub-prime’ mortgage credit crisis hovers ominously over the world economy in 2007–8 (Nason 2007) and, given the economic trends since the 1970s, it would be heroically optimistic to see the growth rates of the last few years as the harbinger of another upturn. Indeed, former US Treasury Secretary Larry Summers has predicted that the American economy is headed for recession in 2008, with likely serious consequences for global growth (cited in Wood 2007: 16).

The impact on social democracy

Social democracy’s problems did not commence with the conclusion of the post-war boom. As Callaghan (2002: 436) comments, the post-war period appears as a ‘golden age’ by contrast only with the ‘grim’ pre-war record

of social democracy. Social democrats have generally failed to live up to the expectations of their supporters. An important reason for this is that their aspirations for social reform are restricted to what capitalist economic structures will permit (see Callinicos 1997; Birchall 1986). It is thus by no means a recent development for social democratic governments to implement policies that both favour business and disappoint labour. Yet social democrats did manage to achieve some significant social reforms in the post-war period, only for these to give way eventually to neo-liberal policies, as we shall see from the case studies that follow. The main factor in this was the change in economic conditions, which historically have been critical to social democrats' ability to oversee reforms that would allow their working class constituents to live a little easier. As Head and Patience (1979: 5) explain, a 'reform government's programme is likely to be very expensive', and therefore it is 'unusually dependent on buoyant economic conditions to help ensure a rapid expansion of government revenues to avoid a crippling budget deficit'.

The post-war boom was important not just because consistent high rates of growth supplied a material base for redistributive programmes: they also allowed such policies to be pursued without raising the ire of capital. 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 the buoyant conditions meant that such reforms were comparatively much cheaper, and did not threaten the economic system (Eley 2002: 7; see also Harvey 2006: 14). Thus, to some extent, the boom nullified the social democratic catch-22 identified by Coates (cited in Birchall 1986: 22, 23), whereby strong economic growth is necessary to finance social reforms beneficial to workers and the poor, but the generation of such growth hinges on developing policies favourable to capital. The post-war boom seemed to suggest that policies for labour and capital were not mutually exclusive.

This explains why the post-war period is widely regarded as a 'golden age' for social democracy. It is arguable in all three case studies examined below that the most significant social democratic measures were implemented on the strength of the post-war economy. When the boom ended, so largely did the reforms. The reasons for this are straightforward. 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, which is why the apparent class harmony of the post-war period gave way to 'polarisation and periodic eruptions of conflict' (Padgett and Paterson 1991: 49). Dumenil and Levy (2004, 9) argue that neo-liberalism was driven by a 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 and expanded investment opportunities, such as the Washington Consensus-style policies cited above. If these were consistent with the needs of accumulation because of their liberating effects on capital, social democratic policies on the other hand 'had by the mid-1970s proven inconsistent with the requirements of capital accumulation' (Harvey 2006: 15).

Also conflicting with the needs of capital accumulation was Keynesianism, which was discredited by the economic crisis (see Hall 1993: 284, 285), and eventually replaced by neo-liberalism. This had major implications for social democrats: Keynesianism's 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 (Padgett and Paterson 1991: 22, 23). To persist with Keynesian solutions would have provoked conflict with capital, something social democrats have rarely countenanced.

To see how the change in economic conditions in the 1970s affected social democracy, we shall examine the cases of Germany, Sweden and Australia. These are important case studies. In the latter case, the Australian Labor Party (ALP) served as a model for some 'modernising' social democrats, such as New Labour in Britain, partly because it commenced its neo-liberal programme relatively early (in the early 1980s) and enjoyed a long stretch of power (1983–96). On the other hand, 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). Sweden has long been considered a social democratic paradise, but as we shall see the collapse of the post-war boom has also been injurious to Swedish social democracy.

To what extent are the cases comparable? A distinction often made is between the 'labourist' parties of the UK and Australia and the 'social democratic' parties of Europe. But the differences between labour parties and social democratic parties are frequently overstated (see Berger 1994). Fielding argues that despite national variations, 'all social democrats sought to transform free market capitalism into a more regulated system they described as socialism' (Fielding 2003: 60). Finally, the compression of these parties into one ('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).

Germany

The SPD has steadily embraced policies that can be described as neo-liberal (see Lavelle 2008a). There is considerable evidence to suggest that its abandonment of reformist politics in government in the 1970s was a response to the breakdown of the boom. In West Germany, annual GDP averaged 7.5 per cent between 1950–59 (Minnerup 1976: 13). Over the longer period of 1950–73, annual growth averaged six per cent (Kotz 2001: 94). This heady growth phase contributed to significant reforms by the SPD when it governed in coalition with the Free Democratic Party (*Freie Demokratische Partei* – FDP)³ between 1969 and 1982. Potthoff and Miller list the reforms of which it could boast at the 1976 election:

relatively 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; [and abortion reform] . . . (2006: 236)

These reforms were premised on economic expansion. The party's Bad Godesberg programme of 1959 described the boom as akin to a 'second industrial revolution', which made 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). SPD plans for reform in the 1960s and 1970s assumed continued growth (Potthoff and Miller 2006: 232).

As is the case elsewhere, SPD ambitions for reform were badly dented by the sea change in economic conditions. Economic growth fell from 4.7 per cent in 1973 to 0.2 per cent in 1974 and –1.4 per cent in 1975 (Potthoff and Miller 2006: 231). Growth averaged six per cent between 1950 and 1973, but fell to just 2.1 per cent in the years 1973–97 (Kotz 2001: 94). According to Brenner's data, the profitability of German manufacturing declined 53 per cent between 1955 and 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'. There was also a wider decline in business profitability (Brenner 2002: 120–5).

According to Potthoff and Miller (2006: 250), rising unemployment and lower growth and tax revenues undermined the welfare state. The SPD 'turned increasingly toward economic liberalism, and introduced a series of austerity policies' (Jahn and Henn 2000: 31). The SPD between 1974 and 1982 twice 'made major cut-backs and changes in labour market policy to curb the growth of expenditure' (Webber 1983: 24). The SPD in 1975 launched a 'major wave' of cuts to spending on transport, health and education (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 SPD Chancellor Helmut Schmidt's policies as tantamount to the 'open abandonment of reformism'. 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 on the slogan 'enough is enough' (Potthoff and Miller 2006: 244, 245).

The Schröder years

Germany thus experienced a slowdown comparable to most industrialised countries. But it has suffered comparatively weaker conditions since reunification when it '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 ff.). Compared to an average of 7.7 per cent in the period 1950–61 and 4.4 per cent between 1961 and 1973, average annual growth during the years 1992–2002 was a mere 1.4 per cent (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).

When the SPD came to power in 1998 after sixteen years in opposition, Chancellor Gerhard Schröder 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' (Schröder 1998). 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).

As we have seen, neo-liberal policies are designed to create opportunities for investment and improve conditions of capital accumulation in an effort

to revive economic growth. Consistent with this, the government's Agenda 2010 policies aimed to improve Germany's success 'as a strong business location' (Federal Government 2004: 5).⁴ The policies attracted the praise of chief executives of prominent US corporations, who have previously criticised 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 per cent of GDP during the 1960s to 19.4 per cent between 2000 and 2003 (Kitschelt 2000: 200; Silvia 2003: 6).

By increasing investment levels, it was hoped, growth would revive. ASPD 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 was to put Germany 'back on the road to growth' (SPD 2003: 4, 7). Finance Minister Hans Eichel (2000) argued that 'a reliable fiscal policy will brighten the growth prospects for the Germany economy'. Schröder (2003) also stated that the policy would 'provide short-term stimulus for growth'.

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% 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). The economic pressures underlying such statements are undeniable.

Sweden

Like its German counterpart, the Swedish Social Democratic party (*Socialdemokratiska Arbetarpartiet* – SAP) has increasingly adopted neo-liberal policies (see Lavelle 2008a and Chapter 6 in this book). 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).⁵ Sweden's abstention from both world wars gave it a head start on many European countries, with growth between 1946–50 averaging 4.5 per cent (Sparks and Cockerill 1991: 95, 96). Economic growth in the 1950s and 1960s averaged 3.3 per cent and 4.6 per cent respectively (Swedish Institute 2004).

Swedish social democracy provides less clear-cut evidence of an immediate impact following the collapse of the post-war boom than both the German and Australian cases. This is related to the SAP's loss of power for six crucial years (1976–82) shortly after the crisis struck. Also, Sweden initially did not suffer the effects of the international recession in 1974–75 (Särlvik 1977: 93). Therefore, the changes were most evident when the SAP returned to power in 1982 (Huber and Stephens 1998). Even so, Kesselman (1982: 416) had already commented that 'the SAP has moved to the right in response to the international economic crisis'. When it did return to power, it confronted a depleted economic base. In the 1970s, Sweden's economy grew at a slower rate than the EU average (Swedish Institute 2006: 1). According to Lundberg, there was a 'near cessation of economic growth during 1974–83', and this had serious repercussions for 'the working of the system', which for over twenty years had assumed 'a steady growth rate (around 4 percent)' (Lundberg 1985: 33, 24). Indeed, growth averaged just two per cent annually in the years 1980–2003 (Swedish Institute 2004).

Sweden was particularly vulnerable given its costly welfare state. Each decline in economic growth by the value of one percentage point reputedly causes an increase of 0.7 per cent in public expenditure (Madeley 1999). A related economic pressure arose from the fact that Swedish unemployment benefits are comparatively high as a proportion of GDP (Einhorn and Logue 2003: 161). Thus, as unemployment rises the fiscal pressures are even greater than in other countries. Official unemployment rose from just 1.7 per cent in 1990 to eight per cent 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'.

Despite a modest economic recovery in the early 1980s, Swedish economic growth remained below the EU average (Swedish Institute 2006). Sweden was hit even harder by the recession beginning in 1990. Economic growth declined 5 per cent, and employment dropped 10 per cent between 1990 and 1993 (Swedish Institute 2006: 2). According to an IMF report, this was the 'deepest and longest recession since the 1930s', and it 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 *et al.* 1995: 1–3, 31). According to Norberg (2006: 87, 88), the early 1990s recession, while not making major inroads into Sweden's high level of taxes or welfare state, nonetheless had significant policy consequences:

Marginal tax rates were cut [in response], 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 early 1990s recession was international in scope, Sweden was particularly affected (Swedish Institute 2004). The recession, according to Notermans (2000: 31), caused large budget deficits, and 'forced the SAP to pursue welfare retrenchment'. The austerity programme enacted by the SAP under Göran Persson from 1995, which amounted to cuts worth eight per cent of GDP, was a response to a fiscal crisis rather than indicative of an ideological shift (Vartiainen 1998: 22). 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'.

SAP politicians and thinkers concede the relationship between declining economic growth and cuts to welfare. Former SAP 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 conceded the unpopularity of some of the SAP's reforms, but 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). Then SAP Finance Minister Pär 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 was the increasingly fractious nature of capital–labour relations. The tension and conflicts somewhat submerged by the boom were once again visible, evident in 'the nation-wide strikes and lock-outs of May 1980' (Webber 1983: 30). Swedish employers launched an 'offensive' against social democratic policies, and the main employer's organisation 'withdrew from the system of corporatist representation of government bodies'

(Pontusson 1994: 39). 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 employer 'offensive' was a reaction to a worsened economic climate that demanded policies to open up opportunities for business investment and improve capital accumulation rates, and which necessarily caused conflict with labour.

Australia

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 Labor government of Ben Chifley (1945–49) included '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).

Australia experienced consistently high economic growth during the long boom (Bolton 1970: 283). Economic growth per annum averaged 3.8 per cent, 4.2 per cent and 5.3 per cent in the 1940s, 1950s and 1960s respectively, which, particularly in the latter two decades, are well above the twentieth-century average of 3.4 per cent (see Lavelle 2008b). Labor languished in opposition for most of this period (1949–72). Yet, when it returned to power in 1972 under the leadership of Gough Whitlam, it implemented during its three years in power⁶ significant reforms based on the strength of the economy, including heavy spending on areas such as health, education, the arts, urban and regional development, and resources for disadvantaged groups. Even Marxist critics noted that in 1973 the government ramped up public spending, 'first raising pensions in line with plans to peg them at 25 per cent of average weekly earnings. The 1973 budget doubled spending on education, tripled outlays on urban development, quadrupled spending on housing' (O'Lincoln 1993: 132). Whitlam (1978: 10) himself conceded that 'we made minimal attacks on entrenched privilege'. But, compared to the disappointing results of Labor in power in the 1980s and 90s when the Bob Hawke and Paul Keating governments instituted many neo-liberal reforms, the Whitlam government is often presented as a social democratic success and model (e.g. Hocking and Lewis 2003).

What is often neglected in reflections on the experience of the Whitlam government, however, is the jettisoning of its reform plans once the boom ended in 1974. As elsewhere, Australia in 1974–75 suffered declining

growth, high inflation and rising unemployment (Dyster and Meredith 1990: 221; Brezniak and Collins 1977). Compared to the 4.2 per cent and 5.3 per cent growth achieved on average per year in the 1950s and 1960s respectively, this fell to 3.5 per cent in the 1970s and 3.3 per cent in the 1980s, before rising slightly to 3.5 per cent in the 1990s. It then fell to less than 3 per cent in the first six years of the twenty-first century, despite the economy being in the midst of a boom (see Lavelle 2008b).

The first major signs of a change in policy direction were evident in 1974–75 towards the end of the government's reign when it reacted to the economic crisis with a number of measures, including establishing an Expenditure Review Committee prejudiced against any further public spending increases (Wood 1975: 9). Such decisions constituted, according to journalist Paul Kelly (1976: 59), 'the most dramatic reversal in economic policy in the shortest possible time'. Another press commentator remarked: 'The Government of reform has been transformed into a Government of *laissez faire*' (McDougall 1975: 1). The national ALP conference⁷ in early 1975 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 conference motion to strengthen the public sector was defeated in favour of a resolution emphasising the need to restore private sector profits (Bowers 1975: 6; *The Age* 6 February 1975: 5). A journalist 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 1975–76 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 (2002, 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, not unemployment, 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 . . . More inflation simply leads to more unemployment' (House of Representatives Hansard, 19 August 1975: 53). Whereas Keynesianism's status as orthodoxy had allowed Labor to avoid having to choose between mainstream economics and state

intervention to raise living standards, the discrediting of Keynesianism meant that Labor no longer enjoyed this luxury (Strangio 2002: 39). Where interventionist policies seemed to garner widespread support in the 1950s and 1960s, business opposition to the Whitlam government's reformist policies grew significantly in the midst of recession 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, requiring a change in policy direction. Reformist social democratic ambitions now seemed to belong 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 fifties [*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 1977a: 7, 8, emphasis added)

This judgement contrasted with the optimism displayed by Whitlam in 1972. 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 [economic] growth. But world-wide inflation and recession frustrated this objective' (Whitlam 1977b: 204). Whitlam argued in 1978 that reforms Labor had introduced in government such as free tertiary education could not have been undertaken in these new economic circumstances (Whitlam 1978: 28). 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). This explains the process of 'de-social-democratisation' which the party underwent in government in the 1980s and 90s (Burgmann 2004: 65).

Conclusion

There are undoubtedly differences in the way in which social democrats responded to the economic crisis that ended a quarter century of expansion following the Second World War. Yet, in all cases examined here, there

was a marked retreat from reform, and a turn to policies aimed at boosting capital accumulation and freeing capital from government constraints. The abandonment of reformism was more abrupt in the cases of the SPD and ALP. Nevertheless, the return to slump in the world economy had implications everywhere for social democracy, which lost the economic base built up during the post-war period and could no longer offer policies that simultaneously met the needs of its working-class constituents and of capital accumulation.

Thus, the rapprochement with neo-liberalism is best understood as a response to changed economic conditions, which in turn shaped the ideological and political climates and put pressures on governments to open up their economies to cross-border flows of investment and trade, in the process creating the 'globalisation' many mistakenly credit with undermining traditional social democratic policies. In this sense, the end of the post-war boom provides an ultimate explanation, rather than the proximate explanation that globalisation may provide. Some will interpret this argument as economically determinist. In fact, given social democracy's historic commitment to the pursuit of reforms within capitalist confines, social democrats acted rationally in embracing neo-liberal policies in a period of economic decline when the range of possible policy options narrows. Without a return to the economic growth levels of the post-war boom – an unlikely prospect – social democratic parties will not again implement redistributive policies reminiscent of that era. What seems clear is that the neo-liberalisation of social democracy is here to stay.

Notes

- 1 Detail of the evidence and arguments surrounding these explanations can be found in Lavelle (2008a, Ch. 3).
- 2 A variety of explanations have been put forward for the re-emergence of crisis in the 1970s. The author favours Marxist explanations based around the decline in the rate of profit internationally (see Harman 1984; Harris 1983, Ch. 3).
- 3 This followed the break-up of a 'grand coalition' with the Christian Democrats from 1966–69.
- 4 Announced in March 2003, the Agenda 2010 policy package included, among other things, legislation to limit the length of time for which an unemployed person could receive benefits; liberalisation 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). For more on Agenda 2010, see Chapters 2 and 7 in this volume.
- 5 The SAP enjoyed uninterrupted rule between 1933–76.

- 6 When the non-government-controlled upper house of parliament refused to pass Labor's budget, the Queen's representative, the governor-general, dismissed the government in November 1975. Fresh elections were held in December, and Labor was comprehensively defeated.
- 7 In theory the party's sovereign decision-making body but whose decisions in practice are often ignored by the party leadership, particularly when in government.

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