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The Postwar Era

World War II was the culmination of the most violent and destructive period in modern European history. Over 30 million people died from the fighting and the Nazis' crimes.¹ Motorized armies and strategic bombing flattened the continent's urban and industrial areas, and postwar inflation, migration, and shortages further ravaged already devastated economies. As the 1947 Report of the Committee of European Economic Cooperation declared, "The scale of destruction and disruption of European economic life was far greater than that which Europe had experienced in the First World War. . . . The devastated countries had to start again almost from the beginning."²

And indeed 1945 was a new beginning, as Europe struggled to rebuild economically while trying to head off the political and social instability that had led to ruin in the past. There was a widespread conviction that unchecked capitalism could threaten goals in all three spheres. One observer notes that, "If the war had shattered anything, it was the already damaged belief that capitalism, if left to its own devices, would be able to generate the 'good society.'"³ The political chaos and social dislocation of the 1930s were held to have been caused by the Great Depression, which in turn was held to have been the consequence of unregulated markets – and so actors from across the European political spectrum agreed on the inadvisability of taking that path again.

The war itself, moreover, profoundly changed many people's views of the appropriate roles of states and markets:

All European governments assumed responsibility for managing the economy and controlling society during the war, but after the war they did not withdraw from economic and social life as most attempted to do after the First World War. . . . The experience of

¹ In addition, millions more died in Stalin's collectivization of agriculture, mass purges, and "deportations of enemy nations" at around this time.

² Reprinted in Shepard B. Clough, Thomas Moodie, and Carol Moodie, eds., *Economic History of Europe: Twentieth Century* (New York: Harper and Row, 1968), 328.

³ Donald Sassoon, *One Hundred Years of Socialism* (New York: Free Press, 1996), 84.

the war [seemed to] demonstrate conclusively that, contrary to the received wisdom of the 1920s and 1930s, central governments could in fact control economic development effectively.⁴

Such beliefs were by no means limited to the left. The 1947 program of the German Christian Democrats, for example, declared that, "The new structure of the German economy must start from the realization that the period of uncurtailed rule by private capitalism is over." In France, meanwhile, the Catholic Mouvement Republicain Populaire declared in its first manifesto in 1944 that it supported a "revolution" to create a state "liberated from the power of those who possess wealth."⁵

After 1945, therefore, Western European nations started to construct a new order, one that could ensure economic growth while at the same time protecting societies from capitalism's destructive consequences.⁶ This order decisively broke with the relationship among state, economy, and society that existed before the war. No longer would states be limited to ensuring that markets could grow and flourish; no longer were economic interests to be given the widest possible leeway. Instead, after 1945 the state became generally understood to be the guardian of society rather than the economy, and economic imperatives were often forced to take a back seat to social ones.

This chapter will draw on the story told in the previous chapters to situate the postwar order historically and intellectually. It will not provide another analysis of the genesis and functioning of this order's constituent elements (for example, Keynesianism, the welfare state, and planning); many excellent examples of such analyses exist and this chapter will draw on them.⁷ Instead, it will show how the postwar order is best understood against the background of debates and developments that had occurred during the previous decades. It will also argue that its nature and significance have been fundamentally misinterpreted.

Scholars have long recognized that the postwar order represented a clear repudiation of the radical left's hopes for an end to capitalism.⁸ What many have failed to appreciate, however, is just how much this order represented a refutation of traditional liberalism as well. Based on a belief that political forces should control economic ones and determined to "re-create through political

⁴ Frank Tipton and Robert Aldrich, *An Economic and Social History of Europe from 1939 to the Present* (Baltimore, MD: Johns Hopkins University Press, 1987), 6, 48.

⁵ Sassoon, *One Hundred Years of Socialism*, 140.

⁶ Philip Armstrong, Andrew Glyn, and John Harrison, *Capitalism Since 1945* (New York: Basil Blackwell, 1991); Geoffrey Denton, Murray Forsyth, and Malcom MacLennan, *Economic Planning and Policies in Britain, France and Germany* (London: George Allen and Unwin, 1968); Stephen Marglin and Juliet Schor, eds., *The Golden Age of Capitalism* (New York: Clarendon Press, 1991).

⁷ See notes 18–20 in Chapter 1.

⁸ Charles Maier, "The Two Postwar Eras," *American Historical Review*, 86, 2, April 1981, and Clas Offe, "Comparative Party Democracy and the Welfare State," *Policy Sciences*, 15, 1983.

means the social unity which modernization has destroyed,"⁹ the postwar order fundamentally broke with classical liberalism's theory and long-standing practice. The most common term used to describe the postwar system, John Ruggie's concept of "embedded liberalism,"¹⁰ is thus a misnomer. If liberalism can be stretched to encompass an order that saw unchecked markets as dangerous, that had public interests trump private prerogatives, and that granted states the right to intervene in the economy to protect the common interest and nurture social solidarity, then the term is so elastic as to be nearly useless. In fact, rather than a modified and updated form of liberalism, what spread like wildfire after the war was really something quite different: social democracy.

The Postwar Order

Sixty years on, it is easy to forget how profound a break with the past the postwar order was. Even Americans, least affected by the war and most committed to the restoration of a global liberal free-trade order, recognized that there was no going back to the status quo ante. Reflecting this, in his opening speech to the Bretton Woods conference, U.S. Treasury Secretary Henry Morgenthau noted, "All of us have seen the great economic tragedy of our time. We saw the worldwide depression of the 1930s.... We saw bewilderment and bitterness become the breeders of fascism and finally of war." To prevent a recurrence of this phenomenon, Morgenthau argued, national governments would have to be able to do more to protect people from capitalism's "malign effects."¹¹ And so instead of a return to the gold standard as after World War I (a system in which the need to maintain the balance of payments severely curtailed state autonomy), after World War II, "no country was expected to suffer severe unemployment or inflation to protect its balance of payments. Henceforth, the balance of payments would become subject to national policy objectives and not dictated by international conditions."¹²

At the domestic level, the shift was even more striking. Throughout Western Europe, states explicitly committed themselves to managing capitalism and protecting society from its most destructive effects. In essence, the liberal understanding of the relationship among state, economy, and society was abandoned. A "large area of economic action [came to] depend on political, not market processes,"¹³ and "the 'economic' and the 'social' were no longer [to be] distinct

⁹ Samuel Huntington, *Political Order in Changing Societies* (New Haven, CT: Yale University Press, 1968), 73.

¹⁰ John Gerard Ruggie, "International Regimes, Transactions, and Change: Embedded Liberalism in the Postwar Economic Order," *International Organization*, 36, 2, Spring 1982, 386.

¹¹ G. John Ikenberry, "A World Economy Restored," *International Organization*, 46, 1, Winter 1992. Also idem, "Workers and the World Economy," *Foreign Affairs*, May/June 1996.

¹² Massimo De Angelis, *Keynesianism, Social Conflict and Political Economy* (New York: St. Martin's Press, 2000), 72.

¹³ Robert Skidelsky, "Introduction," in idem, ed., *The End of the Keynesian Era* (London: Macmillan, 1977), vii.

but [instead] became totally interwoven."¹⁴ The two most often noted manifestations of these changes were Keynesianism and the welfare state.

Keynesianism's significance lay in its rejection of the view that markets operated best when left to themselves and its call instead for substantial state intervention in economic affairs. As one observer put it:

... for classical liberal economists of the nineteenth century, the artificial notion of economic policy had to be meaningless since all adjustments were held to be governed by "natural" laws of equilibrium. Their only preoccupation was to keep the state from abusing its institutional role. ... In the end, economists of Marxist allegiance essentially believed the likewise, crises in capitalism were inevitable, and only a change of regime – the progression to socialism – could modify this given.¹⁵

John Maynard Keynes rejected such views and argued that state action would often be necessary to help avoid economic crises that could threaten both democracy and the capitalist system itself. Having experienced the rise of the Soviet Union and the Great Depression, Keynes understood that markets were socially and politically dangerous. As his biographer has noted, "Keynes was quite consciously seeking an alternative to dictatorship... a programme on which to fight back against fascism and communism."¹⁶ He hoped to undercut the appeal of left-wing calls for capitalism's destruction by showing how it could be rescued from its flaws, and hoped to undercut the appeal of fascism by reconciling democracy with increased state management of the economy.

With regard to the former, Keynes provided arguments for those who wanted to ensure prosperity while avoiding extensive nationalizations and a command economy. In particular, he showed how the state could use fiscal and monetary policy to influence demand, thus stabilizing profits and employment without actually socializing ownership itself.¹⁷

But Keynes believed that a more active state and a more "managed" capitalist system were necessary for political reasons as well. He was aware of the appeal of fascism's economic stance and the widespread view that capitalism and democracy were incompatible. As one analyst of Keynesianism has noted, fascism "promised an anti-socialist solution to the crisis of capitalism... [and] offered a political critique of liberalism's ineffectiveness in the face of [that] crisis."¹⁸ Keynes, by offering a system that "held out the prospect that the state could reconcile the private ownership of the means of production with democratic management of the economy,"¹⁹ showed that there was another, non-totalitarian solution to the problem.

¹⁴ Pierre Rosanvallon, "The Development of Keynesianism in France," in Peter Hall, ed., *The Political Power of Economic Ideas* (Princeton, NJ: Princeton University Press, 1989), 188.

¹⁵ Ibid.

¹⁶ Skidelsky, "The Political Meaning of Keynesianism," in *ibid.*, 35–6.

¹⁷ Stuart Holland, "Keynes and the Socialists," in Skidelsky, ed., *The End of the Keynesian Era*, 68.

¹⁸ Skidelsky, "The Political Meaning of Keynesianism," 35–6.

¹⁹ Adam Przeworski, *Capitalism and Social Democracy* (Cambridge, MA: Cambridge University Press, 1985), 207.

Like Keynesianism, the welfare state helped transform the relationship among states, markets, and societies during the postwar era. It represented a repudiation of the view that a "good" state was one that interfered in the economy and society least, and embodied instead a view of the state as the guardian of society and promotor of social unity. As C. A. R. Crosland noted, after 1945, "it was increasingly regarded as a proper function and indeed obligation of Government to ward off distress and strain not only among the poor but almost all classes of society."²⁰

But welfare states were important not only because they altered the relationship among state, market, and society; they also transformed the meaning or nature of society itself. In particular, welfare states gave renewed importance and significance to membership in a national community, since they both required and fostered a sense of kinship and solidarity among citizens: They could be sustained only if individuals believed that ensuring a basic level of well-being for all was a worthy goal. With the development of full-fledged welfare states, governments became committed to doing, on a massive, impersonal scale, what families and local communities had done in pre-capitalist times – namely, take care of people when they couldn't help themselves. Welfare states thus marked a significant break with a liberal *gesellschaft* and a move toward a more communitarian *gemeinschaft*: No longer was one's subsistence dependent on his or her position in the marketplace; instead, it came to be "guaranteed as a moral right of membership in a human community."²¹ This "delinking... of social support from market position" also went a long way toward eliminating "the economic whip of hunger," and "made political resources rather than markets the main basis for the distribution of resources."²² Postwar welfare states worked, in other words, to significantly decommmodify labor.²³ Decommmodification, in turn, shifted the balance of power in society. Guaranteed a certain level of welfare, workers became less deferential to employers and found it less necessary to hold on to particular jobs.²⁴

But the break with liberalism and the move toward social democracy did not end there. Alongside a general acceptance of Keynesianism and an expansion of the welfare state, European nations also developed a variety of other policies that used the power of the state to manage capitalism and protect society from its most destructive effects.

²⁰ C. A. R. Crosland, *The Future of Socialism* (London: Fletcher and Son, 1967), 98.

²¹ Karl Polanyi, *The Great Transformation* (Boston: Beacon Press, 1944), and also T. H. Marshall, "Citizenship and Social Class," in idem, *Class, Citizenship and Social Development* (New York: Anchor Books, 1965), 86ff.

²² Walter Korpi, "Power, Politics, and State Autonomy in the Development of Social Citizenship," *American Sociological Review*, 43, June 1989, 313.

²³ Although the extent of this decommmodification varied. Gøsta Esping-Andersen, *Three Worlds of Welfare Capitalism* (Princeton, NJ: Princeton University Press, 1990), and John Huber and Evelyn Stephens, *Development and Crisis of the Welfare State* (Chicago: University of Chicago Press, 2001).

²⁴ E.g., Michal Kalecki, "Political Aspects of Full Employment," in idem, *The Last Phase in the Development of Capitalism* (New York: Monthly Review, 1972).

In France, for example, during the war, members of the Resistance became convinced that the country had to transcend "liberalism, which had brought egotism, disorder and backwardness under the republic." They envisioned a postwar republic "*pure et dure*" alongside "an organized, yet free, economy dedicated to human dignity, economic equality, growth and the national interest."²⁵ In practice, this meant a state willing and able to control economic resources and actors. The most straightforward manifestation of this tendency was nationalization. Thus Charles De Gaulle argued that France's postwar health and prosperity depended on ensuring that "the main sources of common wealth are worked and managed not for the profit of a few individuals, but for the benefit of all."²⁶

The most substantively important policy undertaken by the French state to help steer economic development, however, was not nationalization but rather planning. Planning in postwar France was associated above all with Jean Monnet (better known for his role in European integration). Like other members of the French elite, Monnet believed that ensuring the country's health and prosperity required greater state influence over the economy. But unlike some of his colleagues, he thought this influence should not be too direct or heavy-handed. He argued instead that the state could and should intervene indirectly, by offering incentives for certain types of behavior and activity rather than by trying to command or force them. The system that he helped design reflected these beliefs and came to be known as "indicative" planning; it involved the state's putting forward broad goals for the economy and then using a variety of tools to induce economic actors to comply with or contribute to them. The state manipulated the credit supply, for example, to get businesses to undertake certain types of investments and projects rather than others.²⁷

The distinctive feature of the postwar Italian economy, in contrast, was a large state sector. As one analyst noted, "Italy is the most extreme example... of public sector enterprise and intervention in the whole of Europe."²⁸ Indeed, during the 1950s and 1960s, the state controlled approximately 20-30 percent of Italian industry. The largest public sector corporations, ENI and IRI, were responsible for over one-fifth of all capital investment in manufacturing, industry, transport, and communications. The energy giant ENI alone controlled over two hundred concerns in areas ranging from oil to rubber and gas stations to motels, while IRI was Italy's largest commercial

²⁵ Richard Kuisel, *Capitalism and the State in Modern France* (New York: Cambridge University Press, 1981), 188.

²⁶ Andrew Shennan, *Rethinking France: Plans for Renewal 1940-1946* (Oxford, UK: Clarendon Press, 1989), 251.

²⁷ Denton et al., *Economic Planning and Policies in Britain, France and Germany*, 164; Andrew Shonfield, *Modern Capitalism* (New York: Oxford University Press, 1969); John Zysman and Stephen Cohen, *Modern Capitalist Planning: The French Model* (Berkeley, CA: University of California Press, 1977).

²⁸ Shonfield, *Modern Capitalism*, 177.

enterprise.²⁹ The large Italian state sector was viewed as part of a broader strategy for using the power of the state to ensure economic growth as well as general social health and well-being. This new vision of the correct relationship among economy, society, and the state was enshrined in Italy's postwar constitution, which declared the country a democratic republic "founded on labor," and promised that all "economic and social obstacles" to workers' advancement would be demolished. Recognizing the primacy of certain societal goals and needs, the constitution also refrained from according private property the status of "absolute right . . . instead emphasiz[ing] its social obligations and limitations." And it promised Italian citizens a whole range of new benefits, including the right to employment, health care, and education.³⁰

In Germany, the picture was more complicated. Here a commitment to economic liberalism and a desire to break with the Nazis' extreme statism were central features of the postwar economic order. Indeed, the self-professed "neo" or "ordo" liberals who provided the intellectual foundations and much of the leadership for postwar reconstruction "were firm believers in . . . market forces."³¹ Yet even here the new political reality intruded, forcing the state to intervene in the economy in myriad ways and commit itself to social protection. In particular, the German state practiced what some scholars have referred to as "discriminatory intervention," whereby resources were used to help promote and protect favored "national champions." By the 1950s, for example, the German state was already absorbing about 35 percent of the gross domestic product (GDP) in taxes, which it used to influence aggregate demand as well as to "discriminate actively between one industry, and one purpose, and another."³² The state also played a large role in steering savings and investment, with perhaps "half the capital formation in the Federal Republic . . . directly or indirectly financed by public means."³³ And German industry was highly organized, with its *Verbände* (industrial associations) playing an "important public role, as guardians of the long-term interests of the nation's industries."³⁴

Although not nearly as extensive as the state sector in Italy, in postwar Germany, "about one-third of the output of iron ore, one-fourth of coal, more than two-thirds of aluminum production, one-fourth of shipbuilding and, until 1960, about half of automobile production,"³⁵ were under the government's

²⁹ Walter Laqueur, *Europe Since Hitler* (Baltimore, MD: Penguin, 1973), 223; Sima Lieberman, *The Growth of European Mixed Economies, 1945-70* (New York: John Wiley and Sons, 1977), 262; Shonfield, *Modern Capitalism*, 184.

³⁰ Spencer M. Di Scala, *Italy: From Revolution to Republic* (Boulder, CO: Westview Press, 1998), 283, and Harold James, *Europe Reborn* (New York: Longman, 2003), 257.

³¹ Laqueur, *Europe Since Hitler*, 217.

³² Shonfield, *Modern Capitalism*, 282.

³³ Denton et al., *Economic Planning and Policies*, 223, and Gustav Stolper, *The German Economy 1870 to the Present* (London: Weidenfeld and Nicolson, 1967), 277.

³⁴ Shonfield, *Modern Capitalism*, 245.

³⁵ Stolper, *The German Economy*, 277.

control. And the German state's commitment to protecting society from the kind of economic and social turmoil that had contributed to the rise of Hitler was unmistakable. Alongside traditional remedies like the welfare state, Germany also developed a number of innovative policies, such as codetermination, which gave workers the ability to oversee, and in some cases even help direct, business decisions and activity. This system proved very successful, and for decades helped workers and management view each other as "social partners" rather than adversaries. Even in Germany, in short, the postwar political economy was characterized by a fairly activist and interventionist state, a firm commitment to protecting society from capitalism's most disruptive effects, and a belief in the need to foster social unity.

Not surprisingly, the most dramatic postwar transformation in the relationship among state, market, and society came in Sweden. As one observer noted, in Sweden there was a widespread recognition that

...political power [had become] separated from economic power... Public power [could therefore now be used]... to encroach upon the power of capital. Through economic policies, the business cycles would be evened out. The level of employment, of crucial importance for the welfare of the working class, would be kept high through political means, and thereby partly withdrawn from the control of capital. State intervention would be used to induce structural changes in the economy in order to increase its efficiency. Public power, above all, would be used to affect the distribution of the results of production. Through fiscal and social policies a more equal distribution of income would be achieved. Political power, founded in control of organizations would be pitched against economic power.³⁶

In essence, the postwar Swedish state was charged with two tasks: the promotion of growth and the protection of society.³⁷ These goals were seen not as contradictory but as complementary. As Gunnar Adler-Karlsson, a well-known theorist of the postwar Swedish order, noted:

All the parties of the economic process have realized that the most important economic task is to make the national cake grow bigger and bigger, because then everyone can satisfy his demanding stomach with a greater piece of that common cake. When instead, there is strong fighting between the classes in that society, we believe that the cake will often crumble or be destroyed in the fight, and because of this everyone loses.³⁸

To achieve these goals, the Swedish state employed a wide range of tools including planning, the manipulation of investment funds and fiscal policy, and the encouragement of cooperation between labor market partners. (Interestingly, one tool that the Swedish state did not use much was nationalization, which was viewed as both economically unnecessary and politically unwise.)

³⁶ Walter Korpi, *The Working Class in Welfare Capitalism* (London: Routledge and Kegan Paul, 1978), 82.

³⁷ Lars Trädgårdh, "Statist Individualism: On the Culturality of the Nordic Welfare State," in Bo Stråth, ed., *The Cultural Construction of Norden* (Gothenburg, Sweden: Gothenburg University, 1990), 261, and also Korpi, *The Working Class in Welfare Capitalism*, esp. 48-9.

³⁸ Gunnar Adler-Karlsson, *Functional Socialism* (Stockholm: Prisma, 1967), 18.

But perhaps the two most distinctive features of Sweden's postwar political economy were the Rehn-Meidner model and the welfare state, both of which were distinguished by their promotion of decommodification and social solidarity.

The Rehn-Meidner model featured a centralized system of wage bargaining that set wages at what was seen as a "just" level (which in practice seems to have meant ensuring "equal pay for equal work," consistently rising incomes, and improvements for the worse-off to reduce inequality). Wages would be set "too high" for some firms (those that were inefficient or uncompetitive) and "too low" for others (the highly productive and competitive). Firms that fell in the former category faced the choice of either improving or going out of business, while those in the latter would increase their profitability (since the wages they paid would be less than they could otherwise afford). To compensate workers who lost their jobs, the state committed itself to retraining and relocating them for new ones. The system aimed to do a number of seemingly contradictory things at once: promote rising business efficiency and productivity while generating a more equal wage structure and increasing social solidarity. In addition, the Rehn-Meidner model also promoted decommodification, since it attenuated "the relationship between the marginal productivity of individual firms and their wage rates." It also helped eliminate "unemployment ('the reserve army of labour') ... as a disciplinary stick" (since the government committed itself to doing whatever was necessary to help the unemployed obtain new jobs). And finally, by encouraging labor market participation, it helped prevent "a fiscal overload on social policy programmes such as unemployment insurance, and thus ensured that social benefits based on the de-commodification principle were rendered compatible with capital accumulation."³⁹

In comparison to its European counterparts, the Swedish welfare state was larger and more generous as well as distinguished by its explicit promotion of both decommodification and social solidarity. As one of its most perspicacious observers noted, the Swedish welfare state "both establish[ed] universal solidarity and marginalize[d] the market as the principal agent of distribution and the chief determinant of people's life chances."⁴⁰ It did this by providing a range of programs and benefits that dwarfed most other welfare states and by "socializing" (that is, bringing into the public sector) a broad spectrum of services and resources (such as health care, education, and child care) that in many other countries remained at least partially the provenance of the market, families, or civil society organizations.⁴¹ The Swedish welfare state was more universalistic than most others and did a much better job of promoting

³⁹ Magnus Ryner, *Capital Restructuring, Globalisation and the Third Way* (London: Routledge, 2002), 85.

⁴⁰ Gösta Esping-Andersen, *Politics Against Markets* (Princeton, NJ: Princeton University Press, 1985), 245.

⁴¹ Trädgårdh, "Statist Individualism," 263.

socioeconomic equality.⁴² This, along with an explicit attempt to design policies that could appeal to a broad cross-section of the population, helped promote social solidarity and unprecedented cross-class support.⁴³

For these and other reasons, Sweden has long been recognized as a social democratic showplace. Yet even if other countries did not go as far along the same path, a close look shows that their postwar orders were far more social democratic than classically liberal. In France, for example, even though many scholars refer to indicative planning as "neoliberal"⁴⁴ because it differed greatly from Soviet-style command planning and left capitalism and markets intact, it actually represented a dramatic break with liberalism. Both intellectually and practically, it was a descendant of the 1930s *planisme* (put forward by social democratic revisionists following Hendrik de Man) as well as the Vichy regime's efforts to "steer between the extremes of prewar liberalism and wartime dirigisme."⁴⁵ Furthermore, planning was just one part of a larger strategy employed in France during the postwar years that was decidedly unilateral. Its goal was to temper capitalism by "public economic management and heightened self-organization among private interests,"⁴⁶ and it was overseen by a state whose role had changed both quantitatively and qualitatively from the prewar period. "After 1945 . . . the state provided the principal cement holding together a scattered and spent France. . . . The activism of the state was no longer viewed simply as a temporary and reversible intervention, as it had been after World War I; it became part of a long term perspective."⁴⁷ As across much of Europe, in other words, during the postwar period a central role of the French state became guarding and promoting the "collective good" and social unity.⁴⁸

Something similar could be said of Italy, although here the postwar order's intellectual and practical roots in the Fascist period were even clearer. The large Italian state sector discussed previously was essentially the product of Mussolini's nationalizations, and postwar social policy, tax policy, bureaucratic structures, and business relations were all crucially shaped by developments during the Fascist era as well. Most importantly, perhaps, the postwar assumption that markets needed to be controlled and that the state was responsible for protecting society was a mainstay of Fascist propaganda (as well as the work of social democratic revisionists such as Carlo Rosselli).

⁴² For example, Huber and Stephens find that Sweden has the lowest posttax transfer Gini (the most common measure of inequality) and the highest level of redistribution resulting from taxes and transfers. See *Development and Crisis of the Welfare State*, 103.

⁴³ Esping-Andersen, *Politics Against Markets*, and idem, *The Three Worlds of Welfare Capitalism*.

⁴⁴ E.g., Kuisel, *Capitalism and the State*.

⁴⁵ Ibid., 155. As one observer put it, "the architects of postwar innovation could not always avoid building upon Vichy legislation or legislating in parallel directions. For good or evil, the Vichy regime had made indelible marks on French life." Robert O. Paxton, *Vichy France: Old Guard and New Order, 1940-1944* (New York: Columbia Press, 1972), 331.

⁴⁶ Ibid., 248-9.

⁴⁷ Rosanvallon, "The Development of Keynesianism in France," 186-7.

⁴⁸ Shonfield, *Modern Capitalism*, 133ff.

Even in Germany, where the self-professed liberals who guided reconstruction were committed to a firm break with the past and markets, competition, and free enterprise, the postwar political economy drew much more on National Socialist themes and policy "innovations" than many have recognized. The German state's tendency toward "discriminatory intervention," for example, was both a clear violation of liberal teachings and a carryover from the Nazi economy.⁴⁹ It was during Hitler's reign that the state began identifying "national priorities" and developed the tools to control private enterprise and direct economic development. And the cultivation of "national champions" such as Volkswagen, the hierarchical and organized nature of German industry, and the special role played by the *Verbände* were all at least partially legacies of the Nazi era.⁵⁰

Beyond policies and institutions, meanwhile, many of the central principles or values undergirding the postwar German political economy also represented a significant break with classical liberalism. The architects of the social market economy were not only committed to social protection, but also argued that "higher values" should guide economic development and that unregulated markets and laissez-faire policies were socially dangerous and politically irresponsible. Even such supposed "neoliberals" as Walter Eucken, for example, argued that the whole "experience of laissez-faire [proved] that the economic system cannot be left to organize itself," while Ludwig Erhard described the Manchester school of liberalism as "virtually outmoded," and thought it wrong to "accept without reservation and in every phase of development the orthodox rules of a market economy." Similarly, Wilhelm Röpke argued that, "like pure democracy, undiluted capitalism is intolerable."⁵¹ It would be grossly unfair to identify such sentiments with national socialism, but there is no doubt that the Nazi state's insistence on "harnessing capitalism to politics" and its "assumption that it is legitimate for state officials... to intervene pervasively... at the micro-level in both public and private sector enterprises"⁵² continued to influence the German economy long after Hitler's demise.

Across Europe, in short, the postwar order represented something quite unusual. Crosland pointed out that it was "different in kind from classical capitalism... in almost every respect that one can think of,"⁵³ while Andrew Shonfield questioned whether "the economic order under which we now live and the social structure that goes with it are so different from what preceded them that it [has become] misleading... to use the word 'capitalism' to describe them."⁵⁴ Capitalism remained, but it was a capitalism of a very different type – one tempered and limited by political power and often made subservient to

⁴⁹ Simon Reich, *The Fruits of Fascism* (Ithaca, NY: Cornell University Press, 1990), 62.

⁵⁰ *Ibid.*, and Shonfield, *Modern Capitalism*.

⁵¹ Alan Peacock and Hans Willebrodt, eds., *German Neo-Liberals and the Social Market Economy* (London: Macmillan, 1989), 109–10.

⁵² Reich, *The Fruits of Fascism*, 44. See also Chapter 6 of this book.

⁵³ Crosland, *The Future of Socialism*, 34.

⁵⁴ Shonfield, *Modern Capitalism*, 3.

the needs of society rather than the other way around. This was a far cry from both what orthodox Marxists and communists had wanted (namely, the elimination of markets and private enterprise) and from what liberals had long advocated (namely, as free a reign for markets as possible). What it most closely corresponded to was the mixture of economic policies championed by social democrats, fascists, and national socialists together with the commitment to democracy that social democrats displayed but that fascists and national socialists decidedly did not.

Postwar Social Democracy

Ironically, although the postwar order represented a clear triumph for social democratic principles and policies, it was less of a victory for actual social democrats themselves – both because many on the left continued to cling to less promising ideological approaches and because many non-leftists moved quickly to appropriate central planks of the social democratic program.

After the war, all democratic socialist parties turned themselves into champions of policies such as Keynesianism and the welfare state, but this practical reorientation was not always matched by an equivalent ideological one. Mainstream socialists, that is, may have embraced the revisionists' words, but many still didn't hear the music and continued to proclaim their dedication to classic, prewar ideological goals such as transcending capitalism entirely. Over time, all parties of the left recognized this as a disastrous political strategy, and so eventually all did break decisively with the past and with orthodox Marxism in particular. Unfortunately, by the time they did so, other actors had gotten a jump on them politically, and the true lineage of the new arrangements had been forgotten.

The loss of a vibrant, organic connection between democratic revisionism and the postwar order was partially a result of generational change on the left. By the war's end, many of the socialist movement's pioneering activists and intellectuals had either died or emigrated from Europe. As leftist parties reoriented themselves toward gaining political support and power, meanwhile, they naturally selected as leaders technocrats and managers rather than intellectuals and activists – people comfortable with, and good at, the ordinary politics of ordinary times. These new leaders often presided over unprecedented power and political success, but they lacked the old-timers' hunger, creative spark, and theoretical sophistication. As a result, by the last decades of the twentieth century, the democratic left had largely become estranged from social democracy's original rationale and goals, clinging only to the specific policy measures that their predecessors had advocated decades before. Few recognized that these policies, while crucial achievements in their day, had originally been viewed as only a means to larger ends, and fewer still tended enough of the movement's original fires to be able to forge innovative responses to contemporary challenges. This left them vulnerable to other political forces offering seemingly better solutions to pressing problems.

The classic and most consequential unfolding of this drama occurred in Germany. After the collapse of the Third Reich, it was widely assumed both within the SPD and without that the leadership of Germany would naturally fall to the socialists. The SPD expected to benefit from the wave of anticapitalist sentiment that spread across Germany and the continent after the war, as well as its long-standing resistance to National Socialism and the heroic story of its leader, Kurt Schumacher (who had managed to survive over a decade in Nazi concentration camps). Yet despite these advantages, the SPD soon found itself relegated to essentially the same minority status it had enjoyed before the war – and for similar reasons.

In essence, despite the radically changed environment, after the war the SPD offered Germans a rehashed version of its prewar program and appeal.⁵⁵ The theoretical and historical sections of the party's program, for example, spoke in traditional Marxist tones not dramatically different from those invoked at Erfurt more than half a century earlier. Schumacher, who dominated the leadership until his death in 1952, proclaimed:

The crucial point [of the SPD's contemporary agenda] is the abolition of capitalist exploitation and the transfer of the means of production from the control of the big proprietors to social ownership, the management of the economy as a whole in accordance not with the interests of private profit but with the principles of economically necessary planning. The muddle of the capitalist private-economy... cannot be tolerated. Planning and control are not socialism; they are only prerequisites for it. The crucial step is to be seen in drastic socialisation.⁵⁶

In addition to offering a bleak and intransigent view of capitalism's possibilities and calling for widespread nationalization, the SPD also more or less returned to its traditional emphasis on workers and suspicion of other parties. As one observer notes, Schumacher "was so convinced of his party's destiny that he insisted throughout the first postwar election that the SPD could only cooperate with those parties who confirmed the SPD's legitimate right to govern Germany."⁵⁷ In addition, Schumacher "could not suppress his hatred of 'capitalist' and 'reactionary' ruling elites, nor could he overcome his deep seated distrust of the Roman Catholic hierarchy." He also never fully put aside his belief that class struggle or at least polarization were the necessary corollaries of capitalism.⁵⁸ Such views obviously hindered his ability to reach out to broad sectors of German society.

⁵⁵ This is perhaps easier to understand if one recognizes that many of the party's initial postwar leaders came from its prewar ranks. William Carr, "German Social Democracy Since 1945," in Roger Fletcher, ed., *From Bernstein to Brandt* (London: Edward Arnold, 1987), and Susan Miller and Heinrich Potthoff, *A History of German Social Democracy* (New York: St. Martin's Press, 1986), esp. 152.

⁵⁶ Schumacher, "What Do the Social Democrats Want?" speech delivered in Kiel on October 27, 1945, reprinted in *ibid.*, 274.

⁵⁷ Diane Parness, *The SPD and the Challenge of Mass Politics* (Boulder, CO: Westview Press, 1991), 53.

⁵⁸ *Ibid.*, 51–2.

Making matters worse were Schumacher's foreign policy positions, which included opposition to the Federal Republic's integration into Western institutions such as the European coal and steel community (on the grounds that they were stalking horses for capitalist expansion and barriers to eventual German reunification). Not surprisingly, these stances proved unattractive to a German public desperate for prosperity, security, and some semblance of normalcy. Under Schumacher, in short, "the party slid all too easily into the oppositional stance of the Weimar days, supremely confident that it could spurn co-operation with bourgeois parties and win power effortlessly through the logic of history."⁵⁹

But if Schumacher and his cronies were comfortable with such a position, others in the party, and especially its younger echelons, were not. As the SPD's membership declined during the 1950s, it became painfully clear that without a change it was heading for permanent minority status. The contrast between the increasingly dictatorial regime in the East and the Federal Republic's prospering economy, meanwhile, helped many to realize that a fully socialized economy was inimical to both democracy and growth.⁶⁰ In 1955, therefore, Schumacher's successor Erich Ollenhauer set up a commission to reevaluate the party's direction and appeal.

The ultimate outcome was a full reconsideration of the SPD's course in German politics, the famed Bad Godesberg program. Essentially, it committed the SPD to the two main pillars of a modern social democratic program – a people's party strategy and a commitment to reform capitalism rather than destroy it. In particular, Bad Godesberg proclaimed that the party "no longer considered nationalization the major principle of a socialist economy but only one of several (and then only the last) means of controlling economic concentration and power."⁶¹ In the program's well-known phrase, it committed the SPD to promoting "as much competition as possible, as much planning as necessary."

Bad Godesberg also attempted to reach beyond the working class by making clear the party's desire for better relations with the churches and its commitment to defending the country and supporting its military. It abandoned, as one observer noted, the view that the party needed "to redeem an isolated, alienated and repressed working class [and] formally accepted the position that progress could be made through reform and power attained in parliament."⁶²

Finally, the Bad Godesberg program marked the triumph of social democracy through its clear, if implicit, severing of socialism from Marxism. It proclaimed:

Democratic socialism, which in Europe is rooted in Christian ethics, humanism and classical philosophy, does not proclaim ultimate truths – not because of any lack of understanding for or indifference to philosophical or religious truths, but out of respect

⁵⁹ Carr, "German Social Democracy Since 1945," 194.

⁶⁰ *Ibid.*, 196.

⁶¹ Gerard Braunthal, *The German Social Democrats Since 1969* (Boulder, CO: Westview Press, 1994), 18.

⁶² Parness, *The SPD and the Challenge of Mass Politics*, 70.

for the individual's choice in these matters of conscience in which neither the state nor any political party should be allowed to interfere.

The Social Democratic party is the party of freedom of thought. It is a community of men holding different beliefs and ideas. Their agreement is based on the moral principles and political aims they have in common. The Social Democratic party strives for a way of life in accordance with these principles. Socialism is a constant task – to fight for freedom and justice, to preserve them and to live up to them.⁶³

Bad Godesberg marked a clear shift in the SPD's stated identity and goals. Yet if somewhere Bernstein was smiling about his ultimate triumph over Kautsky, he might also have been a bit troubled, because the shift was at least as much pragmatic as it was principled, motivated by a desire to break out of a political ghetto rather than a decision to chart a bold course for the future. In a country where national socialism was a recent memory and "real, existing" socialism was being built next door, the wish to avoid ideology and grand projects is perhaps easy to understand. And it was made possible by the leadership transition to Ollenhauer, "a solid, loyal party functionary, a man dedicated to oiling the wheels of a smoothly running bureaucratic machine [who] was as far removed from the consuming political passions that fired Kurt Schumacher as anyone in the SPD could be."⁶⁴ But if the SPD's de-ideologization made it more palatable and less scary to voters – and did indeed eventually lead to an expansion of the party's support and its participation in government – it also had its drawbacks. In particular, it "rendered [the SPD] unserviceable as a nexus for creating and reproducing utopian aspirations,"⁶⁵ alienating from the party those dissatisfied with the status quo and looking to transform it into something better.

By the 1960s, therefore, the SPD's reorientation had opened up a political space to the party's left, a trend furthered by its increasing intolerance of intra-party disputes and its own activists. The dilemma was only heightened by controversies over the Vietnam War, rearmament and the emergency laws, and the SPD's participation in a grand coalition with the Christian Democratic Union and the Christian Socialist Union in 1966. The coalition was a major milestone for the party, representing its first taste of power in the Federal Republic. Willy Brandt, who succeeded Ollenhauer as leader in 1964, made clear that despite the less-than-perfect conditions, the SPD could not afford to shy away from power now that it was offered, lest it once again convince Germans that it was unable or unwilling to govern. And indeed the SPD continued to gain acceptance, reaching its greatest electoral result ever in 1969, garnering 42.7 percent of the vote and forming its own government with the help of the Liberals. Yet the "reform euphoria" that accompanied Brandt's and the SPD's rise to power

⁶³ Bad Godesberg program, reprinted in Miller and Potthoff, *A History of German Social Democracy*, 275.

⁶⁴ Parness, *The SPD and the Challenge of Mass Politics*, 60.

⁶⁵ Philip Gorski and Andrei Markovits, *The German Left: Red, Green and Beyond* (New York: Oxford University Press, 1993), 44.

was short lived, with Brandt forced to resign as a result of scandals and his replacement by the more pragmatic and centrist Helmut Schmidt.

In many ways, Schmidt represented the culmination of the SPD's postwar transformation. Competent and determined, but lacking transformative goals or an ideological temperament, he focused on proving that his government, and the SPD more generally, was the most capable caretaker of Germany's domestic economy and international standing. Schmidt committed himself to maintaining and improving the living standards of Germany's citizens and committed the country to accepting NATO missiles on European soil. If successful on their own terms, however, these stances further alienated the left and, by tying the party's fortunes ever closer to the country's economy, made the SPD vulnerable to the economic downturn that began in the 1970s. As one observer notes, the flaw in Schmidt's plan "was the assumption of unlimited economic growth. The economic woes caused by the substantial increase in the price of oil as a consequence of the Yom Kippur war . . . and the global recession of 1977 undermined the theoretical premises and material bases of the social democratic reform program."⁶⁶

By the 1970s, in short, the SPD had become so integrated into the system, and so inflexible and ideologically exhausted, that the partial discrediting of its leadership by economic doldrums dealt it a blow from which it has yet to recover. Over the next generation, the party hemorrhaged members and increasingly became a home for the elderly and beneficiaries of the status quo. It lost the support of the young and the radical, as well as many of the poor, unemployed, and alienated. Many of the former turned left to the Greens, and some of the latter have lately turned to right and left-wing populism. Lacking anything distinctive to offer, the hollowed-out SPD now finds itself electorally vulnerable, subject to internal dissension, and increasingly unable to generate either enthusiasm or commitment from anybody.

In Italy and France, the left's trajectories were not entirely dissimilar, although it took even longer for socialists in both countries to make their peace with reality. In Italy, for example, the socialists "jettisoned what remained of [their] Marxist heritage" only in the 1970s.⁶⁷ When the PSI reestablished itself after the war, it quickly returned, like the SPD, to many of the same patterns and practices that had doomed it to irrelevance in the 1920s. Its initial post-war leader, Pietro Nenni, sought to ally, and even merge, with the Communists (the PCI), and believed that the party's foremost goal should be the immediate formation of a "socialist Republic." Such stances alienated the party's more moderate and social democratic elements, leaving the PSI weakened by infighting.

⁶⁶ Gorski and Markovits, *The German Left*, 80. These problems were only compounded by Schmidt's leadership style, which further dried up the party's base and alienated its activists. Miller and Potthoff, *A History of German Social Democracy*, 203.

⁶⁷ Alexander De Grand, *The Italian Left in the Twentieth Century* (Indianapolis, IN: Indiana University Press, 1989), 161-2.

By 1947, Nenni's opponents had split off, leaving him free to dally with the Communists and reorganize the party along Leninist lines, thereby turning it into probably "most radical and, in a Marxist sense, fundamentalist, of all European socialist movements."⁶⁸ Watching these events unfold, one perspicacious observer noted that "[Nenni's strategy] is very silly... but the Italian Socialist Party is a remarkably silly party. It is living in a world of its own making, using language coined in the 20s and doomed to be eaten up by the much more astute Communist party."⁶⁹ Which is precisely what happened. The PCI soon overwhelmed the hapless PSI, becoming the main party of the left and wresting away control of many of the affiliated organizations of the labor movement.⁷⁰ This left the Italian center up for grabs, a situation that the Christian Democrats took full advantage of to become Italy's dominant party.

After many years of political irrelevance, the PSI was finally turned around by Bettino Craxi, who transformed it into a moderate reformist center-left party by the 1970s. At least initially, this strategy paid off and Craxi became the first socialist prime minister of Italy in 1983. Yet the party proved unable to build on this success and construct a distinctive and dynamic movement with broad appeal. It proved "too late to wrench the PCI's strong grip from the masses,"⁷¹ and in any case the PSI now lacked the type of clear ideological profile that might attract committed followers and engender real enthusiasm. Making matters worse, Craxi proved prone to the same weaknesses as other Italian politicians, and in the 1990s was convicted of accepting bribes and kickbacks. With a discredited leader and no particular *raison d'être*, Italian socialism's renewal proved short-lived.

French socialism, finally, offers yet another dreary version of the same theme. After the war, the SFIO abandoned many of its traditional policy stances and positions, and most importantly ended its long-standing internal battles over whether to accept a position as junior partner in a governing coalition. Nevertheless, despite such changes, the party proved unable to make a full break with its past or drop its Marxist rhetoric. Its most prominent member, Léon Blum, vociferously urged a change of course and pushed for a socialism based on evolutionary rather than revolutionary change, one committed to appealing to "people in every walk of life" rather than one steeped in class warfare and worker exclusivity.⁷² Yet his pleas were rejected, and at its first postwar congress in August 1945, the SFIO proclaimed:

⁶⁸ Laqueur, *Europe Since Hitler*, 155.

⁶⁹ Quoted in Sassoon, *One Hundred Years of Socialism*, 89.

⁷⁰ Di Scala, *Italy: From Revolution to Republic*, 280.

⁷¹ Simona Colarizi, "Socialist Constraints Following the War," in Spencer Di Scala, ed., *Italian Socialism* (Amherst, MA: University of Massachusetts Press, 1996), 151.

⁷² Bruce Graham, *Choice and Democratic Order: The French Socialist Party* (New York: Cambridge University Press, 1994), 271-6; S. William Halperin, "Leon Blum and Contemporary French Socialism," *Journal of Modern History*, 18, 3, September 1946.

The Socialist party is by its nature a revolutionary party. It aims at replacing capitalist private property by a society in which natural resources and the means of production are socially owned and classes have been abolished. Such a revolutionary transformation, though in the interest of all mankind, is to be achieved only by the working class. . . . The Socialist party is a party of class struggle founded on the organized working class.⁷³

During the following years, the orthodox faction of the party continued to gain in strength. At the party's 1946 congress, for example, this wing, under the leadership of Guy Mollet (who soon became the party's general secretary), attacked Blum's "watering down" of the party's principles and condemned "all attempts at revisionism, notably those which are inspired by a false humanism whose true significance is to mask fundamental realities – that is, the class struggle."⁷⁴

Unsurprisingly, as a result the party's membership declined from 354,000 in 1946 to 60,000 in 1960, while its share of the vote dropped from 23 percent in 1945 to 12.6 percent in 1962. Its bastions of support, furthermore, ended up being not the working classes, the young, or the more dynamic sectors of the economy, but rather middle-aged civil servants and professionals along with those who stood to lose from rapid social and economic change (such as textile workers and small farmers). As one observer put it, in the decades after the war, the SFIO became a party of "unimaginative, superannuated functionaries" in "terminal decline." "The gulf between its daily practice as a party of the center, devoid of the faintest whiff of radicalism, and its blood curdling socialist rhetoric was enormous; its own parliamentary group, an assortment of mediocre Fourth Republic notables . . . defined itself as 'essentially a revolutionary party . . . a party of the class struggle.'"⁷⁵ As in Germany and Italy, meanwhile, one consequence of the SFIO's rhetorical radicalism was that it provided an opening for the center-right – here in the form of Gaullism – to capture those groups alienated by the left and form a true cross-class coalition on the other side of the aisle, thereby becoming the dominant force in French political life.

The SFIO remained stuck in a rut up through the 1960s; as one deputy put it, "The party doctrine is now like the Bible; we refuse either to change it or to believe in it."⁷⁶ Continual electoral defeats, however, culminating in routs in 1968 and 1969, finally led to change. Mollet retired in 1969 and a new, more pragmatic organization, the *Parti socialiste* (PS), arose in 1971. It insisted on maintaining a clear left-wing profile, at least in part so it could form an alliance with the Communists. Indeed, the two forces eventually agreed on a unity program, the *Programme commun*, which committed the Communists to democracy and pluralism and the socialists to economic radicalism, including

⁷³ Julius Braunthal, *History of the International 1864–1914* (New York: Praeger, 1967), 24.

⁷⁴ Joel Colton, *Léon Blum* (New York: Alfred Knopf, 1966), 459.

⁷⁵ Albert Lindemann, *A History of European Socialism* (New Haven, CT: Yale University Press, 1983), 342, and Sassoon, *One Hundred Years of Socialism*, 297.

⁷⁶ Frank Wilson, *The French Democratic Left 1963–1969* (Stanford, CA: Stanford University Press, 1971), 66.

large-scale nationalizations. This combined front came to power in 1981 during an economic downturn by convincing voters it had the most promising and innovative solutions to France's contemporary problems.

Unfortunately, the socialists' economic program did not work out as hoped and the long-awaited socialist government soon found itself overseeing an economy in turmoil. Forced to act but with little else to fall back on, the socialists ended up making a dramatic volte face: By 1982, the PS had moved from advocating one of the most radical economic programs of any socialist party in Europe to implementing deflationary measures and dramatically cutting public spending. As one observer puts it, this shift signaled "the end of [the PS's] ambition, the termination of passion, the beginning of routine. The PS became 'a grey party looking for colour.'"⁷⁷ By the end of the twentieth century, in other words, the French socialists, like their German and Italian counterparts, had shown themselves able to win elections but could no longer explain to themselves or others why anyone should care.

Not all socialist parties suffered the same fate, of course. As usual, for example, the Swedes did very well – largely because, unlike most of their counterparts elsewhere, they understood and believed in what they were doing. The SAP was able both to prosper at the polls and maintain its distinctiveness by recognizing that the two tasks were, in fact, complementary: The party's ability to integrate individual policy initiatives into a larger social democratic whole ensured that it remained more vibrant and successful than most of its counterparts in the rest of Europe.

To be sure, the Swedish social democrats started off the postwar era in a better position than their counterparts elsewhere. They could build on their own governing record rather than struggle to reestablish their very existence as a party, and their country emerged in better shape from the war than did most others. But even more than luck and a head start, their success was due to the fact that they had fully internalized the core elements of social democratic ideology and devoted themselves to developing creative policies for putting them into practice.

Politically, the SAP worked during the postwar years to strengthen its hold over a broad cross-section of the Swedish electorate. Continuing the strategy it had embraced during the interwar years, the party directed its appeals not to workers alone but to the Swedish "people" (*Folk*) in general. In doing so, it exploited its wartime leadership role, loudly proclaiming its commitment to social solidarity and the national interest. There was no conflict between such positions and social democracy, the party insisted, because properly understood social democracy was all about advancing collective interests rather than those of a particular group or class. SAP appeals were saturated with references to "solidarity," "cooperation," and "togetherness." This was especially true in discussions of plans for an expanded welfare state, which was presented as part of the SAP's strategy for creating a "strong society" (*starka samhället*) and protecting the public from the uncertainties and insecurities inherent in

⁷⁷ Sassoon, *One Hundred Years of Socialism*, 559.

modern capitalism. As Tage Erlander, prime minister from 1946–69, put it, the SAP's social policy grew out of a recognition that "security is too big a problem for the individual to solve with only his own power. . . . The problems of modern society demand an increasing measure of cooperation, collaboration, and solidarity."⁷⁸

Economically, meanwhile, the SAP also continued along its prewar path of using state intervention to manage the economy and sever the link between individuals' market position and their broader life chances. What made these efforts so distinctive was not only the sizable amount of intervention and de-commodification they involved, but also the way they were presented as part of a larger, transformative project. The Rehn-Meidner model, for example, was sold not merely as a practical package of wage regulations but as a case study in the party's strategy of increasing "social control" over the economy without resorting to full-scale nationalization.⁷⁹ It both exemplified and furthered the SAP's attempts to shift the definition of socialization from "common ownership of the means of production" to increasing "democratic influence over the economy."⁸⁰ As Gunnar Adler-Karlsson noted – picking up where Nils Karleby had left off a generation earlier – Swedish social democrats had begun to look upon our capitalists

. . . in the same way as we have looked upon our kings in Scandinavia. A hundred years ago a Scandinavian king carried a lot of power. 50 years ago he still had considerable power. According to our constitutions the king still has equally as much formal power as a hundred years ago, but in reality we have undressed him of all his power functions so that today he is in fact powerless. We have done this without dangerous and disruptive internal fights. Let us in the same manner avoid the even more dangerous contests that are unavoidable if we enter the road of formal socialization. Let us instead strip and divest our present capitalists of one after another of their ownership functions. Let us even give them a new dress, but one similar to that of the famous emperor in H.C. Anderson's tale. After a few decades they will then remain, perhaps formally as kings, but in reality as naked symbols of a passed and inferior development state.⁸¹

The Swedish welfare state was understood in a similar way. Its comprehensiveness and universalism helped "manufacture broad class (even cross-class) solidarity and social democratic consensus," while at the same time marginalizing "the market as the principal agent of distribution and the chief determinant of peoples' life chances."⁸² The party consciously used social policy to expand its hold over the electorate and to develop a sense of common interests across classes. As one commentator noted, "the central mission of the [Swedish social

⁷⁸ Tage Erlander, 1956 SAP congress protokoll, in *Från Palm to Palme: Den Svenska Socialdemokratins Program* (Stockholm: Rabén and Sjögren), 258–9.

⁷⁹ Rudolf Meidner, "Why Did the Swedish Model Fail?" *Socialist Register*, 1993, 211. Also, Sven Steinmo, "Social Democracy vs. Socialism," *Politics and Society*, 16, December 1988.

⁸⁰ Diane Sainsbury, *Swedish Social Democratic Ideology* (Stockholm: Almqvist and Wiksell, 1980), 166.

⁸¹ Gunnar Adler-Karlsson, *Functional Socialism* (Stockholm: Prisma, 1967), 101–2.

⁸² Esping-Andersen, *Politics Against Markets*, 245.

democratic welfare state] is to increase solidarity between citizens by creating a foundation for national rallying (*samling*).⁸³

Recognizing the growing importance of white-collar workers, for example, the SAP explicitly designed social policies that would appeal to them and tie their interests to those of other workers. This was particularly clear in the fight over supplemental pensions at the end of the 1950s, when the SAP "stressed the common interests of manual and white-collar workers [in such pensions] and the struggle for the[m] as of vital interest for all wage-earners."⁸⁴ As with increased economic management, moreover, welfare state enhancements were presented as valuable not only on their own terms but also as steps toward a better future. The party insisted that the welfare state itself represented a form of socialism, since under it "the total income of the people was regarded as a common resource and a portion of it was transferred to those with inadequate incomes." Ernst Wigforss was a well-known proponent of this view, arguing, for example, that the Swedish welfare state was doing the "work of social transformation" and was a critical "means of creating the good society."⁸⁵

All these strategies proved quite successful, and in the years after the war, the SAP was able to remain firmly anchored in the working class while strengthening its support well beyond it. It remained by far the largest party in the Swedish political system, used its dominance to shift the country's center of political gravity to the left, and built the greatest record of political hegemony of any party in a democratic country during the twentieth century.

Even this remarkable string of triumphs, of course, did not allow the party to escape unscathed from some of the problems that set back its counterparts elsewhere. As in the rest of Europe, for example, by the early 1970s economic challenges were mounting, although they took on a distinct aspect in Sweden due to the particular nature of the Swedish model. As noted previously, one consequence of Rehn-Meidner was to create "excess" profits in some firms, as wages in particularly efficient industries were kept artificially low. This led over time to frustration from both workers in those industries (who felt they were being shortchanged) and unions more generally (which worried that the mounting pressures would ultimately lead to abandonment of the entire scheme to delink wages from market forces).⁸⁶ The government appointed a committee headed by Meidner to study the problem, and its proposed solution – the so-called "wage-earner" funds (*löntagarfonder*) – represented both the culmination, and something of a repudiation, of the SAP's approach to social democracy.

Essentially, Meidner's committee recommended gradually transferring the excess profits to funds controlled by the efficient industries' workers, so they

⁸³ Fredrika Lagergren, *På Andra Sidan Välfärdsstaten* (Stockholm: Brutus Östlings, 1999), 167.

⁸⁴ Torsten Svensson, "Socialdemokratins Dominans" (Ph.D. Dissertation, University of Uppsala, 1994), 272.

⁸⁵ Sainsbury, *Swedish Social Democratic Ideology*, 66.

⁸⁶ Sassoon, *One Hundred Years of Socialism*, 706ff.

could be reinvested. Such a solution would help satisfy the workers whose wages were being kept artificially low, the thinking ran, without causing any loss of productivity. This was consistent with the party's strategy of maintaining both growth and a solidaristic wage policy while at the same time increasing "democratic" control over the economy. On the other hand, to the extent that the transfer of money to such workers' funds continued over time, it would gradually eliminate private ownership across much of the Swedish economy – a goal that the SAP had in fact long since rejected as unnecessary as well as politically counterproductive.

Although the story of the funds is complicated, this last characteristic proved to be critical. Recognizing that the wage-earner funds threatened the very existence of capitalism and therefore an end to the implicit trade-off that social democrats had long offered the private sector (that is, markets and private property remain but are tempered and directed by the state), the Swedish business community and its political allies mounted an unprecedented effort to block them. Having no burning desire to kill off capitalism itself, and realizing that it had landed on what was destined to be the losing side of a bruising political battle, the SAP soon backed away from the idea and allowed the funds to be watered down and then essentially eliminated. The controversy took its toll, however, and, in conjunction with other fights over issues such as nuclear power, helped lead to the SAP's first real loss of governing power in four decades.

The setbacks that the SAP suffered in the 1970s forced it, like its counterparts elsewhere, to reevaluate some of its traditional tactics and even strategies. It even went through a period in the late 1980s when it appeared to be drifting intellectually and politically.⁸⁷ But because it had strong reserves of political, ideological, and intellectual capital to draw on, and had reshaped the political and social structure of Swedish society so extensively, in the end the party was able to weather the storm better than others. It bounced back politically, recaptured power in the 1980s, and remains the dominant party in the Swedish political system (although it is not as hegemonic as before). It has maintained its ability to appeal to voters across much of the political spectrum and has managed to coopt many new "postmaterialist" issues (such as environmentalism and women's rights). And economically it recovered from the wage-earner funds fiasco by essentially promising the electorate that it would maintain traditional social democratic policies while updating them as appropriate to deal with contemporary challenges – something at which it has been relatively successful, overseeing impressive economic growth in recent years while still maintaining high levels of social spending and a commitment to egalitarianism and social solidarity.

Perhaps the SAP's greatest success, however, has been to preserve a sense of social democratic distinctiveness in Sweden.⁸⁸ Despite all the changes that have

⁸⁷ Mark Blyth, *Great Transformations* (New York: Cambridge University Press, 2002).

⁸⁸ Francis Castles, *The Social Democratic Image of Society* (London: Routledge and Kegan Paul, 1978).

occurred in both the domestic and international economy over recent decades, that is, the vast majority of Swedes acknowledge and accept the SAP's basic ideas about the virtues of social solidarity, egalitarianism, and political control over the economy. Rather than questioning whether such social democratic concepts are worthwhile, political debate in Sweden has tended to be about whether the socialists or the bourgeois parties are best able to implement them together with steady growth.