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Publisher: Routledge

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## German Politics

Publication details, including instructions for authors and subscription information:

<http://www.tandfonline.com/loi/fgpr20>

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Published online: 30 Apr 2013.

To cite this article: Oliver Nachtwey (2013) Market Social Democracy: The Transformation of the SPD up to 2007, *German Politics*, 22:3, 235-252, DOI: [10.1080/09644008.2013.788153](https://doi.org/10.1080/09644008.2013.788153)

To link to this article: <http://dx.doi.org/10.1080/09644008.2013.788153>

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# Market Social Democracy: The Transformation of the SPD up to 2007

OLIVER NACHTWEY

*The article analyses the changes within German social democracy up to the passing of the SPD's new party programme in 2007. It argues that social democracy has transformed itself from Keynesian into 'market social democracy'. The comparison takes place by means of a policy analysis in the fields of labour and social, as well as financial, policies. Furthermore, the policy comparison facilitates an analysis of the rationality of the political economy on which these policies are based. It demonstrates that market social democracy represents a reconfiguration of the relationship between the market, the state and the individual, one that renews the social realm with elements of economic liberalism. This process is also reflected in the new party programme, which now includes basic assumptions of German ordoliberalism.*

## INTRODUCTION

This article analyses the transformation of the German SPD up to the passing of the party's new programme in 2007. A substantial change took place in the mid-1990s that came to be programmatically articulated as the 'Third Way', or in the German case as the *Neue Mitte* ('New Centre'). The creation of an alternative to both 'old' Keynesian social democracy and neoliberalism was being proclaimed.<sup>1</sup> Though numerous studies analyse the renewal of European social democratic party programmes and policies, most tend to focus on multilevel discussions of 'new social democracy'<sup>2</sup> or on the question of social democratic convergence with Christian Democracy<sup>3</sup> and neoliberalism.<sup>4</sup> Yet, despite the great unanimity on the conclusion that renewed social democracy has broken with classical Keynesian political economy, this has not resulted in a typological conceptualisation of their socioeconomic and political *modus operandi*. What follows *Keynesian* social democracy?

Here it is argued that the changing face of the German SPD until 2007 can conceptually be understood as a political transformation into *market social democracy*. This does not merely denote a rejection of Keynesian economic doctrine but also a far-reaching change in the foundations of social democratic political economy and social philosophy. It demonstrates that market social democracy represents a reconfiguration of the relationship between the market, the state and the individual, one that renews the social realm with elements of economic liberalism.

The basic configuration of Keynesian social democracy and its relationship patterns of political economy and social policy are reconstructed here for the benefit of inter-temporal comparison. After a brief overview of Social Democratic government

policies during the Grand Coalition (1966–69) and the Social–Liberal coalition (1969–82), the transformation period to market social democracy during the Red–Green coalition (1998–2005) is analysed. The findings regarding the political economy, the notion of social justice, as well as the new party programme of 2007 (the Hamburg Programme), are subsequently discussed. The main elements of market social democracy are summarised and discussed in the conclusion.

The comparison takes place by means of a policy analysis in the fields of labour and social, as well as financial and economic policies. Furthermore, the policy comparison enables the analysis of the rationality of political economy on which these policies are based. Rationality should be not be understood here as (enlightened) reason, but should be rather viewed through the Weberian concepts of ‘rational understanding of motivation’ (*rationales Motivationsverstehen*), as well as ‘context of meaning’ (*Sinnzusammenhang*).<sup>5</sup> Deduced from this is the premise that parties – building on Peter Hall’s concept of ‘policy paradigm’<sup>6</sup> – essentially follow a certain paradigm of political economy. While this refers on the one hand to economic doctrine in the narrow sense (e.g. neoclassical economics, Keynesianism), it includes on the other hand the affiliated ‘fundamental preferences’<sup>7</sup> about the structure of the market, the role of the state, as well as the institutionalisation of conflicts. A political economy paradigm functions cognitively, but above all in terms of discourse. It specifies the interpretation of social and economic reality, the nature of the problem, what goals can and should be achieved and which policy and instruments can be suitably applied for its solution.<sup>8</sup> Tightly interwoven with the paradigm of political economy are the changing political governance modes, the new welfare state conception, as well as the understanding of social justice which is grounded in social philosophy, since ‘a doctrine of political economy must include an interpretation of the public good which is based on a conception of justice’.<sup>9</sup>

#### SOCIAL DEMOCRACY, ORDOLIBERALISM AND KEYNESIANISM

The post-war West German order of economic governance – the social market economy – was essentially inspired by ordoliberal economic ideas. The main characteristic of the political economy of the ordoliberals was their focus on the preservation of competition. According to them, competition did not flow from *laissez-faire* policies, but through political and state intervention. Consequently, the ordoliberal concept of social market economy is a form of ‘statist liberalism’.<sup>10</sup> In the words of one of the main intellectuals of ordoliberalism and the social market economy, Alexander Rüstow, the state ‘should not intervene against, but in favour of the rules of the market’.<sup>11</sup> At the same time, the state should be placed under market control so both can restrict each other.<sup>12</sup>

Following the Bad Godesberg party conference in 1959, the SPD completed its break from Marxism and linked this development to an acceptance of the market and the goal of ‘participating in the game of governmentality’.<sup>13</sup> The guiding precept of *competition as far as possible, planning as far as necessary* not only pointed to a rejection of nationalisation, but also to an incorporation of ordoliberal ideas.<sup>14</sup> The political economy of the SPD, which was shaped by future finance minister Karl Schiller, was a synthesis of Keynesian stabilisation-oriented and ordoliberal

regulatory policy. Schiller's Keynesianism was a 'neoclassical synthesis' that located Keynes in neoclassical economic theory.<sup>15</sup> Redistribution in favour of labour, high wages and an all-encompassing social policy were from the point of view of Keynesian political economy no longer particular interests, but were ascribed a universal status in economic development due to their effective strengthening of demand and growth.<sup>16</sup> Notwithstanding this, the social democratic self-perception of 'politics against the markets'<sup>17</sup> was one-sided. Social democracy was additionally a moderniser, an agent as well as a protector of national economic competitiveness. However, at the same time it sought to compensate for the problems of market socialisation by utilising the welfare state.

Seen from this perspective, the post-war SPD essentially practised the contradictory and simultaneous combination of the 'politics of embedded markets'. If this political *modus operandi* is differentiated by markets, then it can well be said that the SPD sought fair competition in the commodity, service and capital markets. However, they took a different perspective with the labour market. Labour was the general agent of social integration. The SPD strove to empower individual workers in the labour market through a policy of decommodification<sup>18</sup> in the same way that it aimed at humanising the conditions in the workplace itself.<sup>19</sup>

Keynesianism served the aim of transforming the neoclassical trade-off of social justice against economic efficiency into a 'harmonious relationship'.<sup>20</sup> Joel Rogers and Wolfgang Streeck have analysed this linkage of social justice and economic efficiency as 'productivism'.<sup>21</sup> Not Keynesianism as such, but Keynesian productivism was the *nervus rerum* of post-war SPD political economy. The functions of social integration and economic systemic integration are complementary, linked together by estimating the 'economic value of social policy'.<sup>22</sup> Herein lies the uniqueness of the rationality of social democratic actors: Keynesian productivism sees a *productive side-effect* in *material redistribution* because higher wages, social expenditure and the expansion of public services contribute to growth.

#### THE SHORT GOLDEN AGE AND ITS DECLINE

The first big test for Keynesian social democracy coincided with the first economic crisis of post-war Germany. Originating in the 1967 'Law of Growth and Stability' (LGS), Keynesian planning programmes (*Globalsteuerung*) combined an anti-cyclical budget policy (for example, more public expenditure financed through deficit spending) with the co-ordination of local administrations for the sake of economic balance. The co-ordination and co-operation of the state, the central bank, the employers and the trade unions was achieved through tripartite co-ordinated action (*Konzerthierte Aktion*). Keynesian policy and concerted action proved its worth by consolidating confidence in overall control.<sup>23</sup>

Social policy in particular was given a prominent part in the social trade-off on account of its compensatory role for the effects of wage moderation.<sup>24</sup> These improvements spanned from an amelioration of status differences between blue- and white-collar workers in social policy to an increase in unemployment benefits. In brief, the Grand Coalition's social policy focused on 'more equality'<sup>25</sup> of outcome and this policy was later 'ambitiously carried on'<sup>26</sup> by the Social-Liberal coalition. The

reforms implemented by the Social–Liberal coalition on coming to office in 1969 differed from the Grand Coalition’s policies in their increased intensity, their frequency and their greater focus on equality of outcome. Seen individually, they often displayed a minor degree of innovation and redistributive character but their cumulative redistributive effects were immense.<sup>27</sup> Accordingly, the ratio of social expenditures to social costs rose from 25.7 per cent in 1970 to 33.7 per cent during the course of the following five years.<sup>28</sup> Faithful to Keynesian theory, these spending increases were ascribed a contributory role in economic growth.<sup>29</sup>

When Helmut Schmidt succeeded Willy Brandt as chancellor in 1974, the heyday of the reform era had already passed. Stability and not reform was now the main concern. The Keynesian paradigm had been under pressure throughout the 1970s. Furthermore, international pressure to assume the role of the global economy’s growth engine resulted in the introduction of Future Investment Programmes (FIPs), a Keynesian long-term policy of demand. FIPs were implemented successfully from their point of view and contributed to an upward trend in the economy,<sup>30</sup> yet their success in creating jobs was clearly less than their economic performance. This deeply shook faith in the ability of Keynesian economic policy to exert overall control.<sup>31</sup> Nonetheless, this did not result in an abandonment of the Keynesian paradigm in the party, despite SPD chancellor Helmut Schmidt becoming receptive to supply-side arguments. A Keynesian interventionism remained dominant and only a few months after the collapse of the Social–Liberal coalition the ‘majority of the SPD had broken with Schmidt’.<sup>32</sup> The ideas on social and labour market policies during the following period remained trapped in traditional political economy: an active labour market policy, social justice and basic social security.<sup>33</sup>

#### THE TRANSFORMATION INTO MARKET SOCIAL DEMOCRACY

During its years in opposition prior to 1998, the SPD was subjected to considerably less pressure to reform than its British Labour counterpart. This can be explained by the different political environments in both countries as well as by their respective political systems.<sup>34</sup> The country’s federalism had also enabled the SPD, through its participation in state governments, to continue to participate in power sharing.<sup>35</sup>

The double campaign slogan of 1998, ‘innovation and justice’, exemplified the political-economic, programmatic and personal dualism of the SPD during that time. Innovation was personified by Gerhard Schröder and the so-called ‘moderniser’ faction, whose opinions on Keynesian concepts ranged from scepticism to outright rejection. Justice and redistribution were values mostly associated with the left of the party and Oskar Lafontaine, an advocate of classical Keynesian redistribution policies. Numerous influential party elites and government members had adopted ideas of economic liberalism by the time the SPD had come to office.<sup>36</sup> A programmatic debate about the relationship between the market, the state and politics had never taken place up to then, and a new alternative paradigm in political economy as well as a conception of justice and the welfare state were also absent.<sup>37</sup>

Consistent with its electoral platform, the new Red–Green coalition initiated a change of policy during its first six months in power.<sup>38</sup> The powerful finance minister Lafontaine was perceived by many to be dictating government policy during

this period.<sup>39</sup> But the Lafontaine era was to last for a mere 163 days. Following an internal power struggle with Chancellor Schröder, Lafontaine resigned from all his posts in March 1999. The result was a power shift in favour of the ‘moderniser’ faction<sup>40</sup> that left Schröder with no rivals in government and the so-called ‘traditionalists’ without their most prominent spokesman. The ‘modernisers’ finally proceeded to establish themselves as the ‘dominant coalition’ within the party.<sup>41</sup> A new change of policy by the Red–Green government was now taking place, exemplified by the effort made with the Schröder–Blair paper to open up to the British debate about the Third Way. In a nutshell, the Third Way adopted the time diagnosis of globalisation and demanded a more supply-oriented economic policy. Welfare state policy had to shift from its focus on social inequality and redistribution towards a social investment approach. Passive benefit transfers and compensatory social policy had to be replaced by an activating policy of ‘no rights without responsibilities’ (*Fördern und Fordern*) that placed responsibility on the citizen.<sup>42</sup> This approach was initially blocked by inner-party resistance.<sup>43</sup> After Lafontaine’s resignation, however, the coalition retreated from policy changes made at the outset of the term of office, which converged later into the model of market social democracy. This change of policy is analysed below by examining the spheres of financial, labour and social policy, as well as the rationality of the political economy on which they are founded.<sup>44</sup>

#### FINANCIAL POLICY

Lafontaine’s aim upon taking office was the establishment of a European and national Keynesian co-ordination framework that would be created by means of co-ordinated monetary, finance and wage policies.<sup>45</sup> Drawing on the tradition of the post-war SPD, surging demand would trigger higher growth rates and achieve a level of social justice, primarily through the strengthening of demand by lower income groups. The first Red–Green budget, particularly the budget of the Ministry of Social Affairs, was marked by expansionist traits.<sup>46</sup> Lafontaine also aimed at strengthening general economic demand through redistribution in the field of taxation. Taxes for lower incomes were to be lowered while remaining unchanged for middle and higher incomes.<sup>47</sup>

Hans Eichel succeeded Lafontaine as finance minister after the latter’s resignation. The demand-oriented expansionist trend was replaced by fiscal adjustment that scaled back nearly all of Lafontaine’s spending increases.<sup>48</sup> By contrast, in the field of budget policy, Eichel did not undertake any immediate change of course with regard to taxation. However, he progressively shifted direction: Not ‘redistribution, but economic competitiveness’<sup>49</sup> was now the main priority. Corporate income tax rates were lowered to 25 per cent (from 40 per cent), asset realisation of stakes in joint-stock companies became tax-exempt and high-income shareholders were generally privileged. Both basic and top income tax rates were lowered (*Steuersenkungsgesetz; StSenkG*).<sup>50</sup> In its election manifesto the SPD had promised a lowering of high income tax to 49 per cent.<sup>51</sup> Now, it was lowered to 42 per cent. This measure – in contrast to Lafontaine’s reforms – provided relief for the poor, but also, more importantly, for higher incomes.

Despite its preference for a policy of fiscal adjustment, the Red–Green government opted for tax breaks for corporations and higher incomes.<sup>52</sup> This government policy thus partly created the later necessity to constrain public spending due to circumstances (e.g. dwindling state funds), typically known in Germany as *Sachzwang*.

In the field of financial markets, the SPD acted on the basis of preferences that had changed since the Second World War. The historically justified preference for a liberal form of corporate control coincided nonetheless with a general programmatic transformation of the SPD. It had by now not only recognised the demands of financial market capitalism, but was also generating these demands itself.<sup>53</sup> During Eichel's term, it had – especially through the tax exemption of profits resulting from the sale of company shares – considerably contributed to the capital market-oriented decartelisation and liberalisation of the German model.<sup>54</sup> At that time it was the SPD and not the clearly more cautious CDU that eventually came to be perceived as the 'party of the markets'.<sup>55</sup>

#### LABOUR AND SOCIAL POLICY

Just as in financial policy, a change of course in employment policy had taken place after the Red–Green government came into office.<sup>56</sup> The ministry of labour was now headed by former IG Metall trade unionist Walter Riester. Trade unions and employers were to be induced to undertake co-ordinated action for the creation of jobs through the corporatist 'Alliance for Jobs, Education and Competitiveness'.<sup>57</sup>

The latest policy change in Red–Green's labour and social policy was carried out in 2002. The 'Alliance for Jobs' proved to be ineffective and rising unemployment following the economic downturn increased pressure on the government. Preceding the policy change there was a change in the government's power structure that further strengthened the dominant coalition of the 'modernisers'. Schröder used a scandal inside the *Bundesanstalt für Arbeit* (the national labour market agency) to found the so called 'Hartz-Commission'. Its basic aim was to develop proposals for a reform for the labour market and the *Bundesanstalt*. The former trade unionist Riester had to leave the government. The Ministries of Labour and Economic Affairs were merged under the leadership of the 'moderniser' Wolfgang Clement. Following a break lasting well over a year, the 'Alliance for Labour' met for one last time without achieving any major breakthrough. Schröder opted for a post-corporatist governing strategy; the trade unions were to be sidelined from now on.<sup>58</sup> A few days later during a speech on 14 March, he announced the launching of 'Agenda 2010'.<sup>59</sup> Chancellor Schröder announced: 'We will be cutting state benefits, promoting individual responsibility, and demanding that every individual make greater efforts.'<sup>60</sup>

The Agenda 2010 included a liberalisation of the labour market and reforms of the architecture of the welfare state. In the first and second *Law of Modern Services in the Job Market* ('Hartz I and II') temporary agency work has been deregulated, non-standard employment ('Mini-Jobs') facilitated and job protection for new employees in small firms had been lowered to create more flexibility.<sup>61</sup> The most controversial element of it was the fourth law for Modern Services in the Job Market ('Hartz IV').<sup>62</sup> This called for the merger of unemployment benefits and welfare benefits into *Arbeitslosengeld II* (ALG II, 'Unemployment Aid II'), as well as the reduction



of the period of eligibility for ALG I from thirty-six to twelve months for all unemployed under the age of 55, an increase in the severity of suitability criteria and the loosening of protection against dismissal. These reforms not only had an adverse effect on the recipients of unemployment and welfare benefits but also on employees.<sup>63</sup> The reform of unemployment aid, the increase in recipients' responsibilities, as well as the axing of eligibility rights, all reduced the degree of de-commodification.<sup>64</sup> Despite the well-known path dependency of the German welfare state, a substantial change of the institutionalisation and liberalisation of social security had taken place.<sup>65</sup>

#### POLITICAL AND PROGRAMMATIC FOUNDATIONS OF MARKET SOCIAL DEMOCRACY

Triggered by the Schröder–Blair paper and the policy changes after 1999, the SPD was now forced into a discussion of a new party programme. Reflections on a new understanding of political economy, the welfare state and social justice were the focus of attention. The changes in policy and programmatic positions of the SPD gave way to the creation of a policy model and a political rationality that are conceptually defined here as market social democracy.

What distinguishes the transformation into market social democracy? The diagnosis of market social democracy is based on three interconnected factors: (1) an altered paradigm of political economy; (2) the re-configuration of the relationship between the market, the state and the individual in social policy, one that not only defines a shift in balance from less state to more market, but also a new interpretation of state social policy; (3) the redefinition of the harmonisation of social justice and economic efficiency that forms the productivist core of post-war social democracy.

#### POLITICAL ECONOMY

The break with the Marxist worldview and participation in governments altered the self-image of Social Democratic elites. Concepts were derived from a welfare state management perspective, and 'political planning' was the SPD's central impetus in the 1970s.<sup>66</sup> Neoclassically inspired Keynesianism formed a central management instrument, but due to its failure to respond to the crisis since the 1970s and to globalisation since the 1980s it was seen as outdated or possessing only limited validity. For Social Democratic actors as well as influential theorists, globalisation signalled the 'end of Keynesian strategy'.<sup>67</sup> By the 1980s the piecemeal abandonment of Keynesianism had also promoted the inclusion of neoclassical and supply-related elements in the theoretical debate on Social Democratic economic policy.<sup>68</sup>

Keynesian political economy viewed the market as unable to generate sufficient effective demand from a macroeconomic point of view and incapable of enabling fair distribution. This particular view of a macroeconomic failure of the market had, however, given way to a perception of a macroeconomic failure of the state, or rather one of a restriction of the state's ability to act. On the level of economic preferences, and despite some contradictory politics, fiscal adjustment – a central theme of monetary theory – was given priority over economic expansion through expansionist, credit-financed and demand-oriented measures until 2005. Immediately after the resignation of Lafontaine, Schröder wrote in a joint paper with Tony Blair:

In the past social democrats often gave the impression that the objectives of growth and high unemployment would be achieved by successful demand management alone. Modern social democrats recognise that supply side policies have a central and complementary role to play.<sup>69</sup>

The Godesberg Programme's slogan *competition as far as possible, planning as far as necessary*, has been rephrased during recent years.<sup>70</sup> Privatisation in the public domain or the liberalisation of formerly controlled markets increases competition but also creates a closely knit level of state regulation. Competition was viewed as a constantly expanding process: it was necessary to apply it as a mechanism to more and more areas. More importantly, however, the labour market – the specific market that social democracy had de-commodified for its constituency over the years – had to be treated more thoroughly *as a market like all others*.

State intervention remained a priority for market social democracy but primarily in terms of allocation in the fields of the provision of public goods and the regulation of monopolies and external effects. These interventions were mostly based on the economic guidelines of microeconomic (as opposed to Keynesian macroeconomic) theories of market failure.<sup>71</sup> They are more likely to be found in neoclassical equilibrium theory than in theories critical of the market. According to Elisabeth Andersen, they do not focus on 'what's wrong with markets, but rather on what's wrong with their absence'.<sup>72</sup>

The recourse to post-neoclassical endogenous theories of growth, as well as neo-Keynesian ideas, constituted a further, albeit in Germany largely implied, element of the new political economy.<sup>73</sup> Post-neoclassical ideas of growth follow the assumption that in a knowledge-based society, knowledge forms a production factor with rising returns of scale.<sup>74</sup> In addition, in terms of the allocation mechanism that is the market, they diagnose a tendency for underinvestment in the areas of research and development, as well as in the development of human resources. Social democracy's new political economy was not neoliberal and anti-statist, but retained an interventionist character. However, its focus was now on the microeconomic level and the sphere of supply to create public goods for better market performance.

## SOCIAL WELFARE

The most important change in the SPD's political paradigm did not occur in economic policy, but in its model of the welfare state. In this policy-mix of (re-)commodification and de-commodification, the political goal that was given priority was the former. The post-war SPD aimed to achieve full employment through an 'active' centralised labour market policy that was congruent and complementary to the Keynesian paradigm. Market social democracy shifted the main focus here as well: micropolitical, subject-oriented management succeeded macropolitical management. Through the aims of individual employability, as well as through the inclusion of the idea of the activating welfare state, a break with the idea of general social responsibility for job security took place and responsibility for employment was now delegated to the individual.<sup>75</sup> Market social democracy is simultaneously in possession of a rational-economic as well as a moral character. The new social subjectivity of self-responsibility is now measured by the contribution to the common good.<sup>76</sup>

The activating welfare state strives in practice to implement the principle of 'no rights without responsibilities'. A re-commodifying policy of cuts in unemployment benefits was combined with an 'enabling' policy.<sup>77</sup> Neoliberalism requires a 'thin activation' that subjects individuals to the silent pressures of the market by means of a total cut in benefits. Market social democracy, however, carried out a 'thick activation' by using further advanced vocational training.<sup>78</sup> By means of the tendency to make claiming state social benefits more reciprocal and conditional using individual integration contracts – claimants now had more obligations in comparison with rights – the individual contract entered into the field of social rights. Of its essence, however, the contract is the legal form of market freedom whereas, by contrast, social rights are the modern further development of citizenship.<sup>79</sup>

Public and collective risk limitation was not abolished but increasingly complemented or partly substituted by individual self-responsibility. The market as a mode of allocation was applied to social security while the state with its distributive role was assigned a position of merely providing a level of basic subsistence. State social policy was originally the sphere of the previously *market-corrective state*. Now the allocation principle of the market was extended to include the social realm as well. In accordance with this, the state is economised and social goods are increasingly provided by 'welfare markets' (for example pension insurance).<sup>80</sup> However, even welfare markets or privatised institutions in the public sphere require a level of regulation to ensure their existence.<sup>81</sup>

This was not a pure process of state reduction but rather a change in the *relationship* between the market and the state. The issue here was a market-enabling state, a social policy in harmony with the rules of the market. To quote Josef Schmidt on the labour market policies of the Red–Green coalition: 'A strong state is needed to achieve and preserve a free market.'<sup>82</sup> The market was to be strengthened using means from the social realm and the social realm was to be preserved, albeit managed according to the principles of the market.

## SOCIAL JUSTICE

The productivist core of the SPD has changed during the transformation into market SPD but has nevertheless been maintained. Making the concept of social justice compatible with the market and not abandoning it was the main issue here. Whereas redistribution was deemed a contribution to growth by Keynesian social democracy, after 1999 egalitarian policies were viewed as a barrier to economic development. The aim of 'equality of outcomes' (essentially a caricature of old social democracy) was abandoned. Instead limited inequalities were to be included to increase economic output.<sup>83</sup>

The most important intellectual foundation for the renewal of Social Democratic conceptions of justice was probably to be found in liberal justice philosophy popularised, for example, by the economist Amartya Sen and the philosopher John Rawls during the last quarter of the twentieth century.<sup>84</sup> The discourse of equal opportunities in market social democracy has its foundation on Sen's emphasis on the development of individual entitlements, whereas Rawls' concept of difference, a concept that derives from the principle of individual liberty, allowed for the justification of

redistribution *as well as* inequality.<sup>85</sup> These liberal theories of justice were seen by Social Democrats as a contemporary answer during the reformulation of their principles of social justice.<sup>86</sup>

Throughout the SPD's history, social justice was a container concept in which egalitarian, need-related as well as efficiency-related elements played a major part. Programmatic semantic policy may have left the concept of social justice unscathed, but its social content was nevertheless altered through re-combination and multiple redefinitions.<sup>87</sup> Social justice became hierarchised: equality-oriented distributive justice occupied a secondary position behind inclusion, participation and equal opportunities.<sup>88</sup> The balance was shifted from a politicisation of secondary redistribution of market-generated primary wealth (thus an implying of the 'vertical' conflict between capital and labour), to a procedural justice that aimed at equalising the entry conditions for the 'horizontal' market. 'Supply-side egalitarianism' was now the main concern.<sup>89</sup> To summarise: everybody was to possess the same fair chances of participation in the market through the prevention of marginalisation, poverty and social exclusion.<sup>90</sup>

These conceptions of social justice corresponded with liberal ideas of competition: if all market participants enjoy equal access, and inherited and social inequality are (ideally) not an issue, then only talent, performance, hard work and individual character are the traits that matter in the market. 'Fairness in participation' was the central norm of social democratic justice discourse, whereas justice in distribution was now relegated to a minor role.<sup>91</sup> By its very nature the principle of justice in participation in and of itself reduces the meaning of distributive justice.<sup>92</sup> The differences between Keynesian and market social democracy are once again summarised on Table 1.

TABLE 1  
KEYNESIAN AND MARKET SOCIAL DEMOCRACY

|                      |                                      | <b>Keynesian social democracy</b>  | <b>Market social democracy</b>                      |
|----------------------|--------------------------------------|--|---|
| Political economy    | <i>Economic theory</i>               | Keynesian  | (Post-)neoclassic                                   |
| Political governance | <i>Concept of public goods/state</i> | Correcting market failures   | Enhancing market performance                        |
|                      | <i>Fiscal policy</i>                 | Expansive/counter-cyclical   | Austerity/ consolidation                            |
|                      | <i>Level of governance</i>           | Macro  | Micro   |
|                      | <i>Incorporation of trade unions</i> | Corporatism  | Post-corporatism                                    |
| Welfare state        | <i>Employment and social policy</i>  | De-commodification   | Activation/re-commodification                       |
|                      | <i>Overall concept</i>               | Encompassing   | Preventive  |
|                      | <i>Productivism</i>                  | Redistribution with productive side-effects                                | Social investments with redistributive side-effects |
|                      | <i>Social justice</i>                | Mix of equality of outcome, equal opportunities and justice of achievement | Equal opportunities/ fairness of participation      |

## THE 'HAMBURG PROGRAMME' – THE ORDOLIBERAL CONSTITUTION OF MARKET SOCIAL DEMOCRACY

The SPD's programmatic debate took place with changing areas of focus and changing line-ups. A new party manifesto, the Hamburg Programme, has been in place since 2007. During the weeks and months in the run up to then, the draft of the Hamburg Programme was shortened and moved significantly to the left.<sup>93</sup> Nonetheless, a content analysis of the Hamburg Programme reveals a considerable shift in comparison with the Berlin Programme. An egalitarian concept of social justice has essentially been replaced by the concept of fairness in participation.<sup>94</sup> Market social democracy manifests itself conceptually and programmatically in ordoliberalisation, exemplified by the concepts of the social market economy and the preventive welfare state (*vorsorgender Sozialstaat*). The concept of the social market economy goes back to Ludwig Erhard's adviser, Alfred Müller-Armack, and denotes the successful post-war economic order. Nonetheless, it is a concept borrowed from the ordoliberal school and mostly associated with the CDU. It did not play any part in the SPD's objectives up until then (it first appeared as a basic concept in the 1994 electoral programme). But this does not merely represent a conceptual adaptation. Ordoliberalism's economic *topoi* feature prominently as well: 'in order for the market to release its positive effects, it is in need of rules, a state able to impose sanctions, effective laws and free price adjustment'. An 'order for competition' that strives for long-term growth forms the desired outcome.<sup>95</sup>

The new political economy as well as the altered understandings of welfare and justice are congenially integrated by the new model of the preventive welfare state. A previously mostly unpronounced side-effect is now vocally pronounced. The preventive welfare state is to be a 'decisive foundation of economic dynamism'.<sup>96</sup> For neoliberals, the welfare state is nothing but a barrier to economic development. Market social democracy, however, sees in the welfare state, workers' participation in management and the right to free collective bargaining a productive contribution to growth, democracy and prosperity.

The preventive welfare state borrows heavily from ordoliberal ideas. The early ordoliberal intellectuals did not display high preferences for redistribution or even a fully fledged welfare state, but they did not reject social security in itself. They strived in general for individual self-responsibility rather than socialised welfare services, and individual social policies instead of socialised ones based on solidarity. To sum up, for them social policy had to be in line with and supportive of the market. It was this ordoliberal idea that the SPD adopted with its concept of the preventive welfare state.

But the preventive welfare state had to transcend the boundaries of the ordoliberal minimised welfare state. Preventive social policy had to minimise future burdens on the state and the economy and increase economic as well as individual competitiveness. But at the same time it had to guarantee basic social security for all citizens. It was in this manner that ordoliberalism was fused together with the classic social democratic concepts of social security and care, as well as with the ideas of Gøsta Esping-Andersen<sup>97</sup> and Anthony Giddens.<sup>98</sup> Both endeavoured not just to activate the welfare state but also to intensify it. They fused the time diagnosis of the productive

power of knowledge with a social programme, education. In this way market social democracy was able to connect the classic social democratic narrative of meritocratic individual upward mobility through education with a competitive orientation of the welfare state. Knowledge and the global market formed the positive sum game from which everybody could profit. Education expenditure was investment in human resources ('social policy investing in people')<sup>99</sup> and – and this is where the wheel comes full circle – according to post-neoclassical growth theory it was also a positive contribution to economic growth. This is market social democracy's productivism: social investments improve competitiveness and possess redistributive side-effects *as well*, since education expenditure or investment in child care also benefits the lower strata of society.

## CONCLUSION

Market social democracy's model marks a distinctive political mode in which political economy, the welfare state model and the concept of social justice are all fused together into a new political rationality in which the market becomes the main point of reference and the prime mode of management. This was framed by two basic principles, the social market economy and the preventive welfare state, that either originated from ordoliberal ideas or were influenced by them.

The transformation into market social democracy becomes evident through comparison over time. Although Helmut Schmidt had for some time resorted to a policy of fiscal adjustment, the reactions to the crisis of the 1970s were for the most part marked by Keynesianist and corporatist elements. The situation, however, was different during the change of policy after Lafontaine was succeeded by Eichel. This change of course was by no means due to the pressures of globalisation, but the result of a political decision following an internal power struggle.<sup>100</sup> The Schröder–Blair paper had already been conceived as a counter-agenda to Lafontaine's policies during his term of office, and was presented only some months after his resignation due to turbulences inside the SPD. Though a certain pressure existed during the change from Lafontaine to Eichel, the economy's prospects fared relatively well. It was not globalisation as such, rather the intrinsic political economic objectives of the dominant coalition of 'modernisers' in the SPD – a preference for competitive corporate tax breaks to attract businesses, fiscal adjustment and competitiveness – that set the tone for the change of policy. Globalisation is a real process with real pressures, but even under the circumstances of globalisation there is a significant level of freedom in formulating social democratic policy.<sup>101</sup> For instance, no fiscal or global-competitive pressure was exerted to exempt sales of equity investments from taxation. Globalisation is not a constraining factor that proscribes a certain policy but the question of what kind of convictions (social democratic) actors use to interpret market integration is nevertheless crucial.<sup>102</sup>

Seeleib-Kaiser<sup>103</sup> has put forward the thesis of the Christian-Democratisation of social democracy. Notwithstanding his good arguments, significant differences regarding moral values remain nonetheless.<sup>104</sup> It is much more reasonable to consider the change of the SPD not in terms of a convergence with other parties but rather in terms of its *adaptive self-transformation*. The transformation into market social

democracy does not make it turn its back on the quest for social justice but counter-balances anew the harmonisation of social justice with economic efficiency. But the meaning of distributive social justice, in a nutshell, has changed to a liberal concept of equality of equal opportunities to participate in the market. Means and ends have changed: the welfare state was basically a means to embed the market. Now the market must be aided by means from the social realm and the social realm must be managed along market principles. From this perspective, the change is a transformation but it continues post-war social democracy's productivist core in a liberalised form.

Since in contrast to the instruments the guiding objectives have not changed, this can well be defined, following Peter Hall's typology (1993), as a change of second order.<sup>105</sup> Other authors see from different perspectives a change of third,<sup>106</sup> as well as second and third order respectively,<sup>107</sup> whereas for Merkel *et al.*<sup>108</sup> and Petring *et al.*<sup>109</sup> the SPD stands as a form of 'traditional social democracy'.<sup>110</sup> In contradiction to the cross-national comparisons of these authors, the inter-temporal comparison above reveals a tremendous transformation of the SPD.

#### ACKNOWLEDGEMENTS

The author would like to thank Dan Hough and the two anonymous reviewers for their valuable comments.

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#### NOTES

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3. M. Seeleib-Kaiser, 'Neubeginn oder Ende der Sozialdemokratie? Eine Untersuchung zur programmatischen Reform sozialdemokratischer Parteien und ihrer Auswirkung auf die Parteidifferenzthese', *Politische Vierteljahresschrift* 43/3 (2002), pp. 478–96; K. van Kersbergen and A. Hemerijck, 'Christian Democracy, Social Democracy and the "Continental Welfare without Work" Syndrome', *Social Policy Review* 16 (2004), pp. 166–86.
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23. This success was, however, less the outcome of an anti-cyclical fiscal policy and more the result of the Bundesbank's monetary policy as well the moderation practised by the trade unions regarding salary increases. F.W. Scharpf, *Sozialdemokratische Krisenpolitik in Europa* (Frankfurt a.M.: Campus, 1987), p. 154.
24. In addition, social policy had through the demand it generated – compared internationally – weak yet nonetheless significant stabilising effects. Abelshausen, *Deutsche Wirtschaftsgeschichte seit 1945*, p. 200.
25. M.G. Schmidt, *Sozialpolitik in Deutschland: Historische Entwicklungen und internationaler Vergleich* (Wiesbaden: VS, 2005) p. 91.
26. K. Schönhoven, *Wendjahre: Die Sozialdemokratie in der Zeit der Großen Koalition 1966–1969* (Bonn: Dietz, 2004) p. 352.
27. M.G. Schmidt, 'Die "Politik der Inneren Reformen" in der Bundesrepublik Deutschland 1969–1976', *Politische Vierteljahresschrift* 19/2 (1978), pp. 210, 236.
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29. This is for example shown in an excerpt from the *Sozialgesetzbuch* of 1970: 'Social policy, besides its primarily humanitarian significance, is increasingly becoming a decisive factor in economic growth'. Cited in H. Scherf, *Enttäuschte Hoffnungen – vergebene Chancen: Die Wirtschaftspolitik der Sozial-Liberalen Koalition 1969–1982* (Göttingen: Vandenhoeck & Ruprecht, 1986), p. 86.
30. *Ibid.*, pp. 34–55; Scharpf, *Sozialdemokratische Krisenpolitik in Europa*, pp. 182–5.
31. W. Jäger, 'Die Innenpolitik der sozial-liberalen Koalition 1974–1982', in K.D. Bracher et al. (eds), *Republik im Wandel 1974–1982: Die Ära Schmidt* (Stuttgart: DVA, 1987), pp. 14–21.
32. F. Walter, *Die SPD: Vom Proletariat zur Neuen Mitte* (Berlin: Alexander Fest, 2002), p. 215.



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39. *Ibid.*, p. 166.
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43. Jun, *Der Wandel von Parteien in der Mediendemokratie*, p. 266.
44. For the analysis of other policy fields see Egle and Henkes, 'Später Sieg der Modernisierer über die Traditionalisten?'; A. Gohr and M. Seeleib-Kaiser (eds), *Sozial- und Wirtschaftspolitik unter Rot-Grün* (Wiesbaden: VS, 2003); C. Egle and R. Zohlnhöfer (eds), *Ende des rot-grünen Projektes: Eine Bilanz der Regierung Schröder 2002–2005* (Wiesbaden: VS, 2007).
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47. *Ibid.*, p. 196; W. Eichhorst and K. Zimmermann, 'Eine wirtschaftspolitische Bilanz der rot-grünen Bundesregierung', *Aus Politik und Zeitgeschichte* 55/43 (2005), pp. 11–17.
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78. J.D. Levy, 'Activation through Thick and Thin: Progressive Approaches to Labour Market Activation', *Social Policy Review* 16 (2004), p. 193.
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83. Egle and Henkes, 'Später Sieg der Modernisierer über die Traditionalisten?'
84. A. Callinicos, *Equality* (Cambridge: Polity, 2000).
85. A. Sen, *Development as Freedom* (Oxford: Oxford University, 1999); Rawls, *A Theory of Justice*. Rawls' theory (1979) displays a certain affinity to liberal economic theory, since – despite displaying an open system preference – it develops its theory along the categories and the political economy of a system of total market competition.

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90. W. Merkel, 'Der "Dritte Weg" und der Revisionismusstreit der Sozialdemokratie am Ende des 20. Jahrhunderts', in Hinrichs *et al.* (eds), *Kontingenz und Krise*, pp. 263–90; W. Merkel, 'Die Dritten Wege der Sozialdemokratie ins 21. Jahrhundert', *Berliner Journal für Soziologie* 10/1 (2000), pp. 99–124; even the most recent political and programmatic debate about the minimum wage dovetails with this analysis, since to a great extent a social minimum harmonises with liberal ethics. P. Flora, J. Alber and J. Kohl, 'Zur Entwicklung der westeuropäischen Wohlfahrtsstaaten', *Politische Vierteljahresschrift* 18/2-3 (1977), p. 723.
91. The concept of sharing is also used sometimes as a synonym for workers' participation in management.
92. F. Nullmeier, 'Eigenverantwortung, Gerechtigkeit und Solidarität: Konkurrierende Prinzipien der Konstruktion moderner Wohlfahrtsstaaten?', *WSI-Mitteilungen* 59/4 (2006), pp. 175–80; Forst criticises it, since 'the goal of basal social inclusion replaces that of far-reaching justice'. R. Forst, 'Die erste Frage der Gerechtigkeit', *Aus Politik und Zeitgeschichte* 55/37 (2005), p. 30. The SPD did not initially show any interest about the qualitative composition of sharing. To quote then SPD general secretary Olaf Scholz: 'Seen from the perspectives of sharing and opportunity, even badly paid and uncomfortable jobs are better than benefit-based non-work'. O. Scholz, 'Gerechtigkeit und Solidarische Mitte im 21. Jahrhundert', *Neue Gesellschaft/Frankfurter Hefte* 50/9 (2003), p. 17. The conditions for dignified work were nevertheless specified in the Hamburg Programme under the slogan of *Gute Arbeit* ('good work').
93. Justice simply denotes just participation in the new programme, but the turn to the left gave the slogan of justice in distribution a prominent role again. However, this concept was stripped of its egalitarian essence and given other connotations. Inequality is to be 'reduced' and opportunities are to be 'promoted at the same time'. SPD *Hamburger Programm*, p. 43. However vague, this slogan is open to an interpretation that resembles Rawls' principle of difference, according to which some inequalities are permissible as long as they benefit society's have-nots. The desire for more justice and justice in distribution is mentioned in the programme's preamble regarding fundamental values but not from a normative-egalitarian point of view: 'Unequal distribution of income and property runs against equal freedom and is unjust when it splits society into those who control others and those who are controlled by others'. *Ibid.*, p. 15. Justice in distribution is therefore founded on social power and individual freedom.
94. H. Pautz, 'Germany's Social Democrats in Search of a New Party Programme', *Politics* 29/2 (2009), pp. 121–9.
95. SPD, *Hamburger Programm*, pp. 17, 42.
96. *Ibid.*, p. 57. In the contributions made by the party leadership during the course of the party conference the preventive welfare state was even seen as an 'economic force of production'. K. Beck, F. Müntefering and P. Struck, *Der Vorsorgende Sozialstaat: Impulspapier für die Programmkonferenz 'Der Vorsorgende Sozialstaat'* (Berlin: SPD, 2006); H. Heil, 'Der vorsorgende Sozialstaat', *Berliner Republik* 4 (2006), pp. 64–5; M. Platzeck, 'Ein besserer Sozialstaat', *Der SPIEGEL*, 9 April 2006, pp. 34–5.
97. G. Esping-Andersen, 'Towards the Good Society, Once Again?', in G. Esping-Andersen *et al.* (eds), *Why We Need a New Welfare State* (Oxford: Oxford University, 2002), pp. 1–25.
98. Giddens, *Der Dritte Weg: Die Erneuerung der sozialen Demokratie*.
99. Sozialdemokratische Partei Deutschlands, *Soziale Demokratie im 21. Jahrhundert: "Bremer Entwurf" für ein neues Grundsatzprogramm der Sozialdemokratischen Partei Deutschlands* (Bremen, 2007).
100. Zohnhöfer, 'Rot-grüne Finanzpolitik zwischen traditioneller Sozialdemokratie', pp. 210–13.
101. G. Garrett, *Partisan Politics in the Global Economy* (Cambridge: Cambridge University, 1998).

102. D.J. Bailey, 'The Transition to "New" Social Democracy: The Role of Capitalism, Representation and (Hampered) Contestation', *British Journal of Politics and International Relations* 11 (2009), pp. 593–612; P. Hall, 'The Comparative Political Economy of the "Third Way"', in O. Schmidtke (ed.), *The Third Way Transformation of Social Democracy: Normative Claims and Policy Initiatives in the 21st Century*, (Burlington, VT: Ashgate, 2002), pp. 31–58; C. Hay and B. Rosamund, 'Globalisation, European Integration and the Discursive Construction of Economic Imperatives', *Journal of European Public Policy* 9 (2002), pp. 147–67; C. Hay, 'What's Globalisation Got to Do with It? Economic Interdependence and the Future of European Welfare States', *Government and Opposition* 41 (2006), pp. 1–22.
103. M. Seeleib-Kaiser, 'Neubeginn oder Ende der Sozialdemokratie?'
104. Jun, *Der Wandel von Parteien in der Mediendemokratie*, pp. 215–16.
105. Ein Wandel 3. Ordnung findet auf der Zielebene, ein Wandel 2. Ordnung auf der Instrumentenebene und ein Wandel 1. Ordnung auf der Ebene der spezifischen Ausgestaltung dieser Instrumente statt.
106. M. Seeleib-Kaiser, 'Rot-Grün am Ende?', in A. Gohr and M. Seeleib-Kaiser (eds), *Sozial- und Wirtschaftspolitik unter Rot-Grün* (Wiesbaden: VS, 2003), pp. 347–61.
107. Egle and Henkes, 'Später Sieg der Modernisierer über die Traditionalisten?' Den Wandel 3. Ordnung sehen sie bei der Auslegung sozialer Gerechtigkeit, beim Verhältnis Staat und Markt einen Wandel 2. Ordnung.
108. Merkel *et al.*, *Die Reformfähigkeit der Sozialdemokratie*.
109. A. Petring, C. Henkes and C. Egle, 'Traditionelle, modernisierte und liberalisierte Sozialdemokratie: Eine Typologie sozialdemokratischer Regierungspolitik in Westeuropa', *Swiss Political Science Review* 13 (2007), pp. 97–134.
110. The differences in judgement mostly result from the different selection of the size that is set as the goal, as well as the variables that are defined as instruments.