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LONDON METROPOLITAN UNIVERSITY

# The Third Way: The British Labour Party and the German SPD

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## Abstract

*This thesis investigates the Third Way in the cases of the British Labour Party and the German SPD from a comparative perspective. Applying a new mix of analytical tools, the investigation of the Third Way impact on both parties is conducted at three different levels: in the setting of the respective party (Partisan Third Way), in the framework of both parties in government (Governmental Third Way) and on the level of the intellectual debate and progressive governance meetings (International Third Way). Such a structured approach is necessary as the term Third Way itself – a term that is often very unclearly defined – becomes clearer in the framework of the two cases studied.*

*This approach also allowed identifying important differences of the Third Way experience in both parties. The Labour Party was fundamentally transformed in opposition whereas the SPD was programmatically as well as structurally largely unreformed when Gerhard Schröder assumed office in 1998. Once in government however, a similar economic logic was observable in the application of new economic and social policies, although Labour's commitment to this economic logic went further than in the case of the SPD. In other policy areas such as foreign policy however, there were no Third Way communalities detectable.*

*The category of the International Third Way, which comprises the intellectual debate as well as the progressive governance network, was detached from any direct influence on either of the two other Third Way levels. It was a place for international networking that did however not bring about a substantial policy cross-fertilisation or convergence. The significant differences of the British and German Third Ways give evidence to the assumption that there was no clear-cut single Third Way that was revolutionising progressive politics.*

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Last but not least I would like to thank my examiners Professor Stefan Berger (Manchester University) and Dr Peter Laugharne (London Metropolitan University). The discussion about this thesis during my viva voce was very fruitful and their informed comments helped me to sharpen my argument in places where further clarification was useful.

## List of Abbreviations

ADAV	<i>Allgemeiner Deutscher Arbeiterverein</i>
ALG I	<i>Arbeitslosengeld I</i>
ALG II	<i>Arbeitslosengeld II</i>
ASBO	Anti-Social Behaviour Order
CCTC	Childcare Tax Credit
CDA	Crime and Disorder Act
CDU	<i>Christlich Demokratische Union Deutschlands</i>
CLP	Constituency Labour Party
CSU	<i>Christlich Soziale Union</i>
CTC	Child Tax Credit
DFES	Department for Education and Skills
DLC	Democratic Leadership Council
DNC	Democratic National Committee
EEC	European Economic Community
EITC	Earned Income Tax Credit
EMU	European Monetary Union
ERM	Exchange Rate Mechanism
ESRC	Economic and Social Research Council
EU	European Union
FCO	Foreign and Commonwealth Office
FDP	<i>Freie Demokratische Partei</i>
FRG	Federal Republic of Germany
FVP	<i>Fortschrittliche Volkspartei</i>
GDP	Gross Domestic Product
GDR	German Democratic Republic
ILP	Independent Labour Party
IPPR	Institute for Public Policy Research

JPC	Joint Policy Committee
KPD	<i>Kommunistische Partei Deutschlands</i>
LRC	Labour Representation Committee
MSPD	<i>Mehrheitssozialdemokratische Partei Deutschlands</i>
MP	Member of Parliament
MPC	Monetary Policy Committee
NATO	North Atlantic Treaty Organisation
NEC	National Executive Committee
NGO	Non-Governmental Organisation
NHS	National Health Service
NPF	National Policy Forum
OMOV	One Member One Vote
PLP	Parliamentary Labour Party
PPI	Progressive Policy Institute
PR	Proportional Representation
PSA	Political Studies Association
SAP	<i>Sveriges socialdemokratiska arbetareparti</i>
SDF	Social Democratic Federation
SDP	Social Democratic Party
SPD	<i>Sozialdemokratische Partei Deutschlands</i>
TUC	Trade Union Congress
UK	United Kingdom
UN	United Nations
US/USA	United States of America
USPD	<i>Unabhängige Sozialdemokratische Partei Deutschlands</i>
WFTC	Working Families Tax Credit
WMD	Weapons of Mass Destruction
WTC	Working Tax Credit

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# Chapter 1

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## Introduction

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*This politics [Third Way] goes by different names in different countries. It's New Democrat in America, New Labour in Great Britain, and the New Middle in Germany. Whatever its national label, Third Way values, ideas, and approaches to governing are modernizing center-left politics around the globe.<sup>1</sup>*

Al From, President of the Democratic Leadership Council (DLC), 1999

### 1.1 General Considerations

The above quote by Al From, president of the Democratic Leadership Council, expresses quite vividly the triumphalism that advocates of the Third Way felt at the end of the 1990s. The re-emergence of the Democrats in the United States with the victories of Bill Clinton in the presidential elections in 1992 and 1996 was followed by a spectacular series of social democratic election victories in Europe. The young New Labour leader Tony Blair achieved a landslide victory in the British general elections of 1997. And one year later, the German social democrat Gerhard Schröder accomplished a convincing victory in the elections to the German *Bundestag*. The progressive and social democratic victories, at least in their extent, seemed surprising following a decade of clear dominance of conservative politics on both sides of the Atlantic. In Europe, social democracy was even pronounced dead.<sup>2</sup>

But it soon became obvious that it was euphemistic to speak of one Third Way that was revolutionising left-of-centre politics around the globe. It became more and more obvious, that there were very different Third Ways (note the plural) in operation and that they were not equally accepted and successful. The discrepancy between the different Third Ways was easily detectable in the lack of international policy outcome,

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<sup>1</sup> See From, Al (1999): Who owns the Third Way?, The New Democrat, 1 May 1999, available at [http://www.ndol.org/ndol\\_ci.cfm?kaid=127&subid=171&contentid=901](http://www.ndol.org/ndol_ci.cfm?kaid=127&subid=171&contentid=901).

<sup>2</sup> See Dahrendorf, Ralf (1980): After Social Democracy, Unserville State Papers, London.

for instance in the framework of the European Union. How is it that 13 out of 15 EU countries at the end of the 1990s were led by social democrats – many of which claimed to be sympathetic to the Third Way project - and no significant joined policy agenda could be agreed? One would assume that proponents of the same political programme would be in the position – given the chance of government - to introduce a variety of joined policy initiatives. The lack of such a common agenda raises questions about the coherence of the ‘joined’ political philosophy. After the turn of the century, the manifold Third Way approaches - and the divergences between them - became more and more obvious. The divergence of the Third Way in the British and German cases is the focus of attention in this work.

The Third Way was the most prominent term in the 1990s in the discussion about the renewal of progressive politics and social democracy. Determining the meaning of the Third Way itself is not an easy endeavour given the variety of connotations and usages the term has experienced.<sup>3</sup> It became prominent in the political debate in its latest meaning – the meaning that is concerned in this thesis - at the beginning of the 1990s in the US Democratic Party of Bill Clinton, following a development that had already started in the early 1980s. The success of Clinton in winning the White House back from the Republicans in 1992, after the Democrats were out of the highest office in US politics for more than a decade, impressed social democrats in Europe. Suffering a similar fate in electoral terms - the SPD was out of office since 1982 and the Labour Party even since 1979 - especially the latter actively

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<sup>3</sup> Historically, the term Third Way has been used on a number of occasions and in very diverse meanings. It has been around at least since Pope Pius XII called for a Third Way between capitalism and socialism at the end of the 19<sup>th</sup> century. See the summary paper of the Nexus Third Way debate, available at <http://www.netnexus.org/library/papers/3way.html#3way>.

sought to 'learn the lessons' necessary to overcome electoral misfortunes also in Europe.

The entrance of the Third Way into the debate about social democratic renewal in Europe, both on the national and the European level, triggered a vivid debate. The range of reactions went from enthusiastic embracement, like in the case of the leadership of the Labour Party, to rejection, as for instance in the case of the *Parti Socialiste* in France.<sup>4</sup> The variety of reactions across Europe to the Third Way is of a minor concern in this thesis and will be dealt with in the detail necessary for the main focus in the chapter on the 'International Third Way'.

This thesis sets out to explain in scientific terms the cases of the Third Way in the Labour Party and the German social democratic party SPD. It analyses two cases that have obvious similarities, for instance having been out of office for a long time and regaining power at the end of the 1990s, but that, as even a superficial view on both parties reveals, have generally absorbed and developed the Third Way in different manners.

The general hypothesis to be tested in this thesis is that the different party traditions, the different circumstances of the respective political systems and the different nature of the relationship between the party and the party's government are the key to explain the different trajectories of the Third Way in the Labour Party and the SPD.

In order to achieve this task, a series of new analytical approaches are used. As the definition of what the Third Way stands for is difficult due to the general lack of

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<sup>4</sup> See Lawday, David (1999): The French exception is on a roll, *New Statesman*, 28<sup>th</sup> June, available at <http://www.newstatesman.com/199906280015>.



sharpness of the term<sup>5</sup>, a study of the modern Third Way origins is needed to provide an understanding of its meaning and development. What is the character and rationale of the Third Way? Why has it emerged and in what way has it changed politics? What were the consequences of this change? These are questions that need answers before an assessment of the Third Way impact on the British Labour Party and the German SPD can be undertaken.

For this reason, a study of the emergence of the Third Way in the US Democratic Party must be conducted before moving to the two main cases of analysis. This is above all to clarify the character of the Third Way and by doing so to develop a path into the debate about the Third Way that became broader and broader, especially after it developed a significant impact in Europe. The analysis of the Third Way in the framework of the Democratic Party sets the basis for the understanding of the concept.

It seems that this general understanding of the origins has been widely disregarded in the Third Way studies available. There is remarkably little literature on the emergence of the Third Way in the US and new primary research had to be conducted. An analysis of this vital pre-stage of European Third Way approaches has not been used for a comparative analysis in the necessary depth before.

An analytical weakness of many debates about the Third Way has been that all too often party issues have been equated or confused with governmental issues. Not only that the summary of too many aspects of politics under the general term Third Way contributes to its lack of sharpness, it can lead to different conclusions too. For this reason, this thesis follows a new approach that distinguishes three logical levels of

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<sup>5</sup>

See the summary paper of the Nexus Third Way debate, available at <http://www.netnexus.org/library/papers/3way.html#3way>.

Third Way analysis. The first level of analysis is the Third Way on a party level (called the **Partisan Third Way** in this thesis). The second category is the Third Way in government (the **Governmental Third Way**), examining the politics of Third Way parties in government and the third category is the **International Third Way** that analyses the character of the international and academic Third Way debate.

The chapters on the Partisan Third Way in the British Labour Party and the German SPD follow a new analytical approach too. Whereas there is a reasonable amount of academic literature on the place of the Third Way in the history and political tradition of the Labour Party<sup>6</sup>, there has been remarkably little comprehensive analysis about the compatibility of the Third Way with the political tradition of German social democracy. The Third Way was repeatedly rejected as just ‘neo-liberal’<sup>7</sup> – indeed a characteristic of it – but there was hardly any attempt to define the Third Way comprehensively or provide an explanation why a neo-liberal approach should not be adopted but rejected.

These deficiencies derived in part from the lack of understanding of the origins of the Third Way and in part from the handling of the Third Way as if it was in a political vacuum. The SPD paid next to no attention to what happened in the USA in the 1980s and early 1990s but focused its attention on the British Labour Party following Blair’s ascendancy.<sup>8</sup> And the Third Way has to be viewed against the backdrop of political tradition to be judged comprehensively. Also, the comparative analysis of the Third Way in the respective party traditions provides vital explanations

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<sup>6</sup> See for instance Diamond, Patrick (2004): New Labour’s old Roots. Revisionist thinkers in Labour’s history 1931-1997, Imprint Academic, Exeter and Fielding, Steven (2003): The Labour Party. Continuity and change in the making of ‘New’ Labour, Palgrave MacMillan, London.

<sup>7</sup> See for instance Butterwegge, Christoph (2003): Abschied von der sozialen Gerechtigkeit? Die deutsche Sozialdemokratie am Scheideweg, *Gewerkschaftliche Monatshefte*, Vol. 54, No. 10/11.

<sup>8</sup> Dieter Dettke, interview with author, 22<sup>nd</sup> June 2004.

for the different developments of Third Way politics in both parties. This is why this historical scrutiny is a vital part of this thesis.

The origin and rationale of the Third Way scrutinised in detail in Chapter 3 provides the basis for the separation of the party and the government level. Given the original Third Way's character as an electoral strategy, it is important to discern the impact of the concept before and after a successful election. The task of governing poses different challenges and creates different problems than reforming a party to adopt a new electoral strategy. This becomes especially clear in the comparison of the Labour Party and the SPD. The chapters on the governmental Third Way examine this relationship in detail. In this thesis, the analysis of governmental policies includes the whole of the Schröder years (1998-2005) and the first two Blair governments (1997-2005).

It is important to stress at this stage that neither the chapters on the Third Way in the setting of the party history nor the chapters on the governmental Third Way aim to be exhaustive accounts of both areas. A complete analysis of party histories and governmental policies would of course not be possible due to the limited scope of this thesis. On both levels of analysis, the developments and policies were selectively chosen according to their value for the comparative understanding of the Third Way.

Last but not least the chapter on the International Third Way looks at the intellectual development of the Third Way on the supra- and international level and sets it in relationship to the Partisan and Governmental Third Way. It is important to emphasise that this chapter is not intended to discuss in detail the whole international Third Way debate or to extend it. This has been exhaustively done in different



publications and fora.<sup>9</sup> Rather, the aim here is to set the debate in context to the other Third Way levels studied.

So this thesis pursues the following structure: after the theoretical approaches have been developed and explained, the origin of the Third Way in the US is looked at. Based on this understanding, the Third Way impact on both parties in the framework of their respective party history is examined. The politics of Labour and the SPD in government, and their relationship to the Third Way, is the next level of analysis before a scrutiny of the international and intellectual elements of the Third Way concludes this thesis. So a detailed understanding of the Third Way in the cases of Labour and the SPD is developed by the successive levels of analysis.

The breakdown of Third Way analysis into the three levels described above is a new approach. The idea for this analytical model stems from the author's discussion about Third Way assessment with the former SPD chairman Oskar Lafontaine in 2000 and was developed and refined over the years of research. A more detailed approach to the investigation of the Third Way was also proposed in the recent academic literature:

The Third Way (...) does not have a single meaning. It can be viewed as an electoral strategy, as a new politics and as a new programme. These aspects obviously overlap, but they are also distinct and frequently confused. A rather different assessment of the Third Way is reached depending on which is given priority.<sup>10</sup>

So, the Third Way is a puzzle whose appearance depends on how you put the pieces together. The assembly of these puzzle pieces requires a set of academic tools. Therefore, the next chapter of this thesis looks at the scientific tools on offer and puts

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<sup>9</sup> See Giddens, Anthony (ed) (2005): *The Global Third Way Debate*, Polity, Cambridge and the Nexus online debate at <http://www.netnexus.org/library/papers/3way.html#3way>.

<sup>10</sup> Gamble, Andrew (2005): Commentary: The meaning of the Third Way, in: Seldon, Anthony, Dennis Kavanagh: *The Blair Effect: 2001-2005*, Cambridge, p. 431.

the useful ones together into a theoretical toolbox assembled for the purposes of this research. Each of the three levels of analysis requires a custom-made theoretical approach.

The research in this thesis is based on an exhaustive review of the existing literature on the Third Way – both primary and secondary – as well as the theoretical political science literature. The cases under investigation are very differently publicised. In the British case, there is a huge amount of academic literature about the different aspects of Labour politics. In the case of the SPD there is relatively little academic literature available. The selection of sources hence reflects the state of the literature.

In the instances where the existing literature was patchy or in areas where further information contributed significantly to the understanding of a particular circumstance, new primary research was conducted. New information was chiefly gathered via expert interviews conducted over a period of five years and the author's personal involvement in a series of Third Way activities over the years, for instance as part of the German delegation to the Progressive Governance Conference in London in 2003.

The author refrains from describing in detail the existing literature on the topic and the review of this literature body in this introduction. The existing literature becomes sufficiently clear over the course of the argument and suggestions for further reading on particular issues will be referenced in footnotes. The detailed bibliography at the end of this thesis also provides an overview over the consulted literature. The second part of this introduction is dedicated to placing the research into context.



## 1.2 The Third Way Context

Part of identifying what a piece of research is about is recognising what it is not about. There are issues related to the Third Way that are not the subject of investigation here. For instance there is a considerable amount of literature investigating the Third Way from a media angle. The copying of US campaigning techniques such as Bill Clinton's campaign 'war-room' and the phenomenon of spin-doctoring, in the case of the British Labour Party most frequently associated with Labour's former director of campaigns Peter Mandelson and former No 10 media adviser Alastair Campbell – however is not subject of this thesis. The professionalisation of media relations certainly helped in implementing the Third Way rationale as an electoral strategy and also changed the way governments dealt with the media. But the 'spin-issue' is more means for rather than origin of the Third Way. It is therefore of no particular importance for the research approach in this thesis.<sup>11</sup>

Another important distinction has to be made between the Third Way that is the subject of investigation in this work and the Third Way of the Swedish social democratic party SAP. These two concepts can be particularly confusing as they are both set in the context of a social democratic party and both carried the notion of change. However, as Jenny Andersson argued very convincingly,

[a]s the SAP embarked on its Third Way in the early 1980s, the key metaphor was not "renewal" but rather "safeguarding" (...). The metaphor of safeguarding clearly expressed the idea that the major achievement was in the

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<sup>11</sup> For a comparative analysis of the "spin-issue" in the Labour Party and the SPD see Spanier, Bernd (2004): *New Labour, The SPD and the "Spin Issue"*, in: Haseler, Stephen, Henning Meyer (eds.): *Reshaping Social Democracy: Labour and the SPD in the New Century*, European Research Forum at London Metropolitan University, London, pp. 7-28. A more comprehensive study of Labour and the SPD in the 'media democracy' is also available. See Jun, Uwe (2004): *Der Wandel von Parteien in der Mediendemokratie. SPD und Labour im Vergleich*, Campus, Frankfurt.

past, and that the main task of social democracy was to protect its historical construction from an unknown future.<sup>12</sup>

The Swedish Third Way, which preceded the Third Way in the Democratic Party and in the Labour Party by several years, was not designed to represent a departure from an unsuccessful past. The Swedish Third Way represented a break with post-war ideology in the sense that it did not necessarily consider public expenditure and welfare policies as productive investments anymore. It stood for a pragmatic reconsideration of means rather than a 'New' social democracy involving a rejuvenated public philosophy.<sup>13</sup> In this respect, the Swedish Third Way differed considerably from the Third Way under examination in this thesis as Chapter 3 on the origins of the Third Way will make clear.

There were also close connections between the British and the Australian labour parties and there is some literature on their cross-fertilisation.<sup>14</sup> It is however the most widely held assumption in the academic literature – see for instance the quote by Anthony Giddens in Chapter 4 – that the experience of the US Democrats was not just an influence but the role model for the Third Way and New Labour. In result, without denying that parties of course also look more widely at political experiences of sister parties around the world, the US influence is the decisive one and is therefore analysed whereas other relationships were left aside.

Before starting to pursue the main research questions, the definitions of a few key terms need to be clarified as part of the research context. As already explained, the Partisan, Governmental and International Third Way are umbrella terms for the

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<sup>12</sup> Andersson, Jenny (2006): *The People's Library and the Electronic Workshop: Comparing Swedish and British Social Democracy*, *Politics and Society*, Vol. 34, No. 3, p. 439.

<sup>13</sup> See *ibid.*

<sup>14</sup> See for instance Scott, Andrew (2000): *Running on Empty. 'Modernising' the British and Australian Labour Parties*, Pluto Press, Annandale.

Labour and SPD experience of the Third Way on these separate levels. The terms *Neue Mitte* and Third Way are used interchangeably in the German case.

Another term that is frequently used and rarely defined is 'neo-liberal'.

According to the Oxford English Dictionary Online, the term 'neo-liberal' is defined as 'relating to, or characteristic of a modified or revived form of traditional liberalism, especially one based on belief in free market capitalism and the rights of the individual.'<sup>15</sup> This brief definition includes all aspects of the term that are relevant in this thesis: neo-liberalism is in the tradition of liberalism, refers to a dominant role of free market economics and believes in strong rights (and responsibilities) of the individual rather than in collective solutions. These characteristics will be important throughout this thesis.

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<sup>15</sup>

See [www.oed.com](http://www.oed.com).

## Chapter 2

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# Theoretical Approaches to Comparative Party and Government Analysis

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## 2.1 General Considerations

Deciding and justifying a certain theoretical approach to a study first requires the nature of the study itself to be defined. In the case of this thesis, the nature of the study is a political analysis. The factor that makes a political analysis 'political' is its emphasis on political aspects of social relations.<sup>16</sup>

In that sense, a clear definition of 'the political' is essential. Taking into account the variety of possible definitions for this term, in this scrutiny the author favours a definition of 'the political' focused on different aspects of power. What does this understanding imply for the nature of a political analysis?

A political analysis is, then, one which draws attention to the power relations implicated in social relations. In this sense, politics is not defined by the *locus* of its operation but by its nature as a *process*.<sup>17</sup>

Consequently, for the investigation conducted in this thesis, the conceptualisation of different processes associated with the British Labour Party and the SPD defines the analytical results of this political study.

The comparative study of political parties and their actions in government is part of the political science sub-discipline 'comparative politics'. In this field, the cross-national scrutiny of political systems or important parts of it, as for instance party systems, dominates the literature.<sup>18</sup> The comparative examination of political systems or sub-systems however causes different problems in terms of valid theoretical approaches than is the case in this thesis dealing with the investigation of the party development and governmental policies of two parties positioned in different systems.

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<sup>16</sup> See Hay, Colin (2002): Political Analysis, Palgrave, New York, p. 3.

<sup>17</sup> Ibid.

<sup>18</sup> See Berg-Schlosser, Dirk, Ferdinand Müller-Rommel (1997): Entwicklung und Stellenwert der Vergleichenden Politikwissenschaft, in: Dirk Berg-Schlosser, Ferdinand Müller Rommel (eds.): Vergleichende Politikwissenschaft, Leske + Budrich, Wiesbaden, p. 13.

Given its scope of only two investigation areas, this thesis is certainly a piece of comparative politics focussing on a small number of cases (small *N*).<sup>19</sup>

The other dimension of comparative political research is the dimension of variables, that is specific aspects of the examination subject that are scrutinised and compared. On each level of comparison, the theoretical approach must include a distinct set of variables, placed in the context of the research design, in order to provide the foundation for valid judgements. The choice for these variables depends on the perspective one chooses to look at the subject of investigation.

Whereas comparative politics used to rely mostly on quantitative empirical variables, it has changed in recent years. Increasingly qualitative interpretive approaches have made their way into the sub-discipline. These qualitative approaches allowed the subject to transcend the formerly limited scope of quantitative research in comparative politics and made studies possible that focus on the cases themselves rather than on abstract patterns.<sup>20</sup>

In the specific field of transnational party comparison, Oskar Niedermayer was one of few scholars who described theoretical and methodological problems of comparative party research as follows:<sup>21</sup>

One of the difficulties cross-national research is confronted with is the problem of system-transcending theoretical conceptualization. This problem results from the fact that not only the social phenomena to be studied, but also the

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<sup>19</sup> See Lijphart, Arend (1971): *Comparative Politics and the Comparative Method*, *American Science Review*, Vol. 65, No. 3, pp. 682 sqq.

<sup>20</sup> See Collier, David (1991): *The Comparative Method: Two Decades of Change*, in: Dankwart Rustow, Kenneth Paul Erickson (eds.): *Comparative Political Dynamics*, Harper Collins, New York.

<sup>21</sup> Oskar Niedermayer was involved in the EPPMLE project that examined EU parties comparatively. Besides this project aimed at providing comparative quantitative data, he also described problems that have a general character in comparative party research.

theoretical constructs to be used for the analysis are embedded in different system frameworks.<sup>22</sup>

In the cases explored in this thesis, the above mentioned connection imposes theoretical problems for the comparative investigation of party developments as well as on comparative policy analysis. In Britain and Germany, influences on developments of a party and policy making are different. Therefore political reactions are different too. Hence on the one hand, there is a need to be cautious about the potential biases a certain theoretical framework can involve according to Niedermeyer's warning, but on the other hand one must not neglect systematic national influences that might be important for the result of the analysis itself. So, a primary aim must be to avoid 'second order biases'<sup>23</sup> as far as possible and to retain all insightful dimensions of analysis at the same time.

Considering the subject of this thesis, the confusion about the meaning of the Third Way asks for a carefully defined theoretical framework for the analyses of the different dimensions of the Third Way. The 'Forum Scholars for European Social Democracy' wrote about the question what the Third Way actually is:

On the European Continent the debate about the Third Way is a debate about everything. It's about the Blair Revolution, New Democrats & New Labour, the joint Blair/Schröder Declaration, Third Way-like policies in various European countries and the work of Anthony Giddens and others. Political and social theory and the practice of (the New Labour) government are interwoven.<sup>24</sup>

One political journalist expressed the fuzziness of the Third Way in even more striking words. He wrote that 'trying to pin down an exact meaning in all this

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<sup>22</sup> Niedermayer, Oskar (1986): Methodological and practical problems of comparative party elites research: the EPPMLE project, *European Journal of Political Research*, Vol. 14, No. 1-2, p. 254.

<sup>23</sup> Biases in the setting of the applied scientific approach

<sup>24</sup> Cuperus, René, Karl Duffek, Johannes Kandel (2001): European Social Democracy: a Story of Multiple Third Ways. An Introduction, in: Cuperus, René, Karl Duffek, Johannes Kandel (eds.): Multiple Third Ways. European Social Democracy facing the Twin Revolution of Globalisation and the Knowledge Society, Friedrich Ebert Stiftung, Wiardi Beckman Stichting, Renner Institut, p. 13.

[reference to the Third Way] is like wrestling an inflatable man. If you get a grip on one limb, all the hot air rushes to another.'<sup>25</sup>

The vague perception of the core concept of this study requires the comparative research in the party as well as in the governmental field carefully applying systematic theoretical approaches that define what ought to be compared and with what kind of means. Following such an approach, a concept of what the Third Way is – in the specific setting of the two cases investigated - should become clearer too.

In this context, it is important to emphasise that there are many influences on transitions of social democratic parties. As some investigations suggest, there are external factors that influence social democratic parties. Egle, Henkes, Ostheim, and Petring argue in their comparative study that there are national restrictions for instance for the adoption of free market policies.<sup>26</sup> This argument is however based on the assumption that in comparable European countries led by social democrats (including Britain and Germany) there are similar market deregulating policies identifiable.<sup>27</sup> It is further implied that all compared social democratic parties in government **favour** free market policies **to the same extent**, if only national restrictions obstruct them from developing the most comprehensive free market policies.

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<sup>25</sup> The Economist (1998), Goldilocks Politics, December 17<sup>th</sup>.

<sup>26</sup> They also acknowledge competition between parties, the role of trade unions in the national contexts and constraints resulting from different welfare state systems as further decisive factors.

<sup>27</sup> See Egle, Christoph, Christian Henkes, Tobias Ostheim, Alexander Petring (2003): Sozialdemokratische Antworten auf integrierte Märkte – Das Verhältnis von Markt und Staat, Hierarchie und Konsens, project *Sozialdemokratische Antworten auf integrierte Märkte – Dritte Wege im internationalen Vergleich*, University of Heidelberg, available at [http://dritte-wege.uni-hd.de/texte/sozialdemokratische\\_antworten.pdf](http://dritte-wege.uni-hd.de/texte/sozialdemokratische_antworten.pdf).



In another study, Peter Hall states, that his 'principal contention is that the origins and fate of the political projects associated with the Third Way are dependent on the character of contemporary political economies.'<sup>28</sup> Hence, he provides another analytical framework based on 'external' factors – in this case the structure of a country's specific political economy.

Whereas some analyses, as just mentioned, rely on the impact of 'external' constraints that make social democratic parties change, Herbert Kitschelt suggests an approach regarding 'internal' sources:

In contrast to external "class theoretic" and political economic approaches, my analysis (...) is preoccupied with the "internal" process of political choice in the arenas where parties and party activists are political players: the field of interparty competition and the intraparty organization of strategic choice.<sup>29</sup>

In order to apply a comprehensive framework to study the renewal influences on the British Labour Party and the SPD, one needs to use an approach that takes account of 'internal' as well as 'external' sources of influence on changing social democratic parties. It is advantageous to look at both aspects aiming at using their explanatory strengths where possible and trying to overcome their weaknesses where necessary.

Relating to this, the distinction between programmatic and party developments on the one hand and governmental policies on the other hand is of crucial importance in this thesis. Many analyses of social democratic party renewal, comparative or not, do not make a clear division between these two fields and thus produce a hybrid in which processes that do not necessarily correspond are merged together. The

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<sup>28</sup> Hall, Peter A. (2002): *The Comparative Political Economy of the Third Way*, in: Schmidtke, Oliver: *The Third Way Transformation of Social Democracy: Normative claims and policy incentives in the 21st Century*, Ashgate, Burlington, p. 31.

<sup>29</sup> Kitschelt, Herbert (1994): *The Transformation of European Social Democracy*, Cambridge University Press, Cambridge, p. 5.

distinction between party and governmental developments might not seem to be important for the case of the British Labour Party (see also Chapter 4 and 6). However, the comparison between the two cases explored here clearly shows the necessity of such a division.<sup>30</sup>

Emphasis on 'internal' sources as defined by Kitschelt will be given in the scrutiny of the programmatic and party development, although this process is also tangential to 'external' societal factors. In the case of the British Labour Party, the Third Way transformation into 'New' Labour happened whilst the party was in opposition. Shifts in 'external' impact areas, such as the political economy or the structure of the welfare state, present a greater constraint to governing parties that have to deal with its consequences. As an opposition party, these factors mean fewer constraints on policy choices. In the case of the SPD, the impact of Third Way ideas in opposition times was vague. Nevertheless, the logic of limited external constraints in opposition also applies to the German social democrats before the 1998 election victory.

On the other hand, analytical frameworks focusing on external factors as applied by Egle, Henkes, Ostheim, and Petring, Hall, Merkel or Tsebelis<sup>31</sup> provide valuable tools for the scrutiny of governmental behaviour of the two social democratic parties analysed in this thesis. In this context, it is important to discern between what own input the party as such can realise in a given political setup and to what degree there are external constraints that determine the policy output. There are a few

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<sup>30</sup> The analysis in this thesis will show that this distinction is crucial for understanding the differences between the British and the German case.

<sup>31</sup> See Tsebelis, George (2002): *Veto Players: How Political Institutions Work*, Princeton University Press, Princeton.

theoretical approaches in political science that allow for the measuring of such influences.

So, in the two step analysis conducted here, the party analysis will focus on internal factors, whereas the analysis of governmental policies will take external factors more into account. These two approaches will be examined in detail in the following paragraphs.

## **2.2     Conceptualising the Third Way Impact on the Party Development of Labour and the SPD**

Taking the difficulties of comparative analysis into account, one must clearly sketch out the specific aspects which should be worked out in this thesis. In order to develop an analytical framework that on the one hand considers the different national circumstances and constraints and on the other hand allows drawing valid comparisons, the focal point of the investigation needs to be clearly defined. In this thesis the role of the Third Way in the context of the British Labour and the SPD is the centre of attention. This comprises two different aspects: impact on the party evolution and influence on governmental policies. In this section, the theoretical approach to the Third Way in the party development will be addressed. But the first point - equally crucial to both parts of analysis - that needs to be clarified is the question: what is the Third Way?

This question is addressed and answered in the chapter about the emergence and development of the Third Way in the US Democratic Party. As indicated in Chapter 1, this analysis provides the basis for the investigations applied to the British Labour Party and the SPD in the following chapters as well as the trajectory of the Third Way concept itself. The chapter about the US Democrats gives an understanding of why and how the Third Way became dominant in Democratic politics in the 1990s as well as what it comprised as regards content. To clarify, many events and developments in the decade between the early 1980s and early 1990s are important. That is why this chapter applies an historic approach using a qualitative chronological analysis of events as well as the evaluation of key documents.

Having gained an understanding of what the initial Third Way was as regards content, emergence and structure, the impact of this entity on the party development of the British Labour Party and the SPD will be scrutinised. The fact that many works do not differentiate between party politics and governmental policies leads to a degree of unclear theoretical approaches which predominantly focus on features of the different political systems and the resulting constraints.<sup>32</sup> These approaches are useful to study policies of Third Way governments, but give little orientation as regards programmatic trajectories of social democratic parties. Owing to this, the combination of three different analytical levels is a useful way to examine the impact of the Third Way on the party development of the Labour Party and the SPD comparatively: first, an analysis of the parties' historical background, second a political analysis of the way the Third Way was absorbed, and third an exploration of how the Third Way altered the party overall.

First, having an understanding of the ideological history of each party is absolutely crucial to the understanding of Third Way impact. Not only does an historic perspective provide long term views on programmatic entities, it also provides evidence for different societal and political circumstances that influenced a specific programmatic feature. Or as Steven Fielding phrased it regarding the example of common ownership in the history of the Labour Party:

(...) at various points during the twentieth century, particular ideas have appeared more plausible than others. Most relevant to this study, changing circumstances mean that the merits of state economic intervention have waxed and waned, being more widely accepted during the twentieth century's middle decades than at either its start or conclusion. It was, therefore, sometimes easier for Labour to promote common ownership than at other times.<sup>33</sup>

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<sup>32</sup> See Chapter 2.1 for 'external' sources on social democratic party renewal.

<sup>33</sup> Fielding, Steven (2003): *The Labour Party. Continuity and change in the making of 'New' Labour*,

Providing analytical insights into the programmatic history of both parties will contribute to the depth of scrutiny only the time axis (longitudinal analysis) can provide and overcome explanatory shortcomings other studies deliberately accept.<sup>34</sup>

A hybrid of historical and political analysis is not widely applied in scientific studies yet has become the preferred method of many scholars contributing to the Labour Movement Specialist Group of the Political Studies Association (PSA).<sup>35</sup> Colin Hay even calls for a 'post-disciplinary' approach for the study of the Labour Party comprising economics, sociology, history and politics in order to transcend the shortcomings of each discipline.<sup>36</sup> Since the harmonisation of these four approaches is obviously very hard to realise, a more realistic conglomerate of historical and political analysis would already enhance the quality of research considerably. This joint analysis helps to surmount the deficiencies of political scientists that run the risk of regarding all contemporary developments novel to mankind and theorising intellectually superior to empirical research. On the other hand, historians sometimes tend to display the past in some way detached from contemporary life.<sup>37</sup>

For the focus of this thesis, a hybrid of historical analysis and political exploration is particularly helpful, as it is to be supported by evidence or falsified as to

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Palgrave MacMillan, London, p.27.

<sup>34</sup> See for instance Egle, Christoph, Christian Henkes, Tobias Ostheim, Alexander Petring (2003): Sozialdemokratische Antworten auf integrierte Märkte – Das Verhältnis von Markt und Staat, Hierarchie und Konsens, project *Sozialdemokratische Antworten auf integrierte Märkte – Dritte Wege im internationalen Vergleich*, University of Heidelberg, available at [http://dritte-wege.uni-hd.de/texte/sozialdemokratische\\_antworten.pdf](http://dritte-wege.uni-hd.de/texte/sozialdemokratische_antworten.pdf). In this study long term aspects are neglected in favour of abstraction of short-term conditions.

<sup>35</sup> See Callaghan, John, Steven Fielding, Steve Ludlam (2003): Introduction, in: Callaghan, John, Steven Fielding, Steve Ludlam: *Interpreting the Labour Party: Approaches to Labour Politics and History*, Manchester University Press, Manchester, p.3.

<sup>36</sup> See Hay, Colin (2003): How to study the Labour Party, in: Callaghan, John, Steven Fielding, Steve Ludlam: *Interpreting the Labour Party: Approaches to Labour Politics and History*, Manchester University Press, Manchester, pp. 188 sqq.

<sup>37</sup> See Callaghan, John, Steven Fielding, Steve Ludlam (2003): Introduction, in: Callaghan, John, Steven Fielding, Steve Ludlam: *Interpreting the Labour Party: Approaches to Labour Politics and History*, Manchester University Press, Manchester, p.3.

whether all aspects of the Third Way in the party development of Labour and the SPD are really as new as the labels 'New Labour' and '*Neue Mitte*' suggest. Despite the fact that this approach was originally designed to scrutinise the Labour Party with its specific historic interpretation approaches, the author believes that the essential merits of 'historicising' political analysis described above also apply to the comparative analysis conducted in this thesis.<sup>38</sup>

The first tool of political analysis used in this study to assess Third Way impact on Labour and the SPD also acknowledges the importance of history. Given the dissatisfaction with the *status quo* as the fundamental reason for change, Richard Rose explains in his 'lesson drawing' approach, that the search for alternatives will be conducted across time and space.<sup>39</sup> The concepts 'lesson', and 'lesson drawing' are key terms in this approach that need some closer explanation.

Whereas in everyday speech a 'lesson' can be more or less all kinds of conclusions, in Rose's approach the definition of the term is narrowed down. In this context, a 'lesson is (...) defined as an action-oriented conclusion about a programme or programmes in operation elsewhere; the setting can be another city, another state, another nation or an organisation's own past'.<sup>40</sup> Considering 'lesson drawing' from other experiences, Rose differentiates between five different qualitative levels of lesson drawing:

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<sup>38</sup> For more detailed information about the schools of interpreting the Labour Party historically see Fielding (2003) and Callaghan, Fielding, Ludlam (2003).

<sup>39</sup> See Rose, Richard (1991): What is lesson drawing?, Centre for the Study of Public Policy, Glasgow, p.16.

<sup>40</sup> Ibid., p. 7.

**Figure 1**<sup>41</sup>

<b>1. Copying</b>	Adoption more or less intact of a programme already in effect in another [place]
<b>2. Emulation</b>	Adoption, with adjustment for different circumstances, of a programme already in effect in another [place]
<b>3. Hybridization</b>	Combine elements of programmes from two different places
<b>4. Synthesis</b>	Combine familiar elements from programmes in effect in three or more different places
<b>5. Inspiration</b>	Programmes in use elsewhere act as intellectual stimulus for developing a novel programme without any other analogue.

Besides the ‘Synthesis’ level, that is not applicable to this thesis due to the given number of two cases, all other categories provide a valuable tool for judging Third Way impact on Labour and the SPD. These levels also provide the possibility to make more analytical sense of terms like the ‘taking over’ of ideas or programmatic entities. Additionally, the starting point of Rose’s approach: satisfaction or dissatisfaction with the *status quo*, is also appropriate for the analysis of Third Way influence on British and German social democracy.

Having qualitatively scrutinised the Third Way impact, the successive analytical step must logically be how the Third Way affected the parties in general. In the academic literature, there is a vast number of classifications for political parties. Terms like ‘catch-all party’ (Kirchheimer), ‘electoral professional parties’ (Panebianco), ‘new politics party’ (Poguntke), ‘cartel party’ (Katz and Mair), and ‘business firm party’ (Hopkin and Paolucci) are prominent concepts.<sup>42</sup> However, a major shortcoming of all

<sup>41</sup> Ibid., p. 28.

<sup>42</sup> This listing does not claim to be a comprehensive account of all classifications in political science literature. It moreover aims at portraying the great variety in this field. For further details about the mentioned concepts see: Kirchheimer, Otto (1966): *The Transformation of Western European Party Systems*, in: La Palombara, Joseph, Myron Weiner: Political parties and political development, Princeton University Press, Princeton. Panebianco, Angelo (1988):



these typologies is that they tend to display party change in uni-directional patterns.<sup>43</sup>

Attempting to overcome these analytical constraints, Steven Wolinetz argues for schemata that on the one hand are more general than earlier approaches but on the other hand provide more space for specific adjustments required by the specific type of research.

If they [schemata] are to be useful, such schemata must not only distinguish among different types of political parties, but do so in ways which reflect questions we are interested in. The latter implies that there is no universally valid scheme, but rather that the utility of schemata depends in part on what we want to know and that a classification useful for one purpose may not be useful for another.<sup>44</sup>

Aiming at providing this analytical freedom, Wolinetz introduced a framework focusing on three different primary orientations of political parties: policy seeking, vote seeking, and office seeking (see Figure 2).<sup>45</sup>

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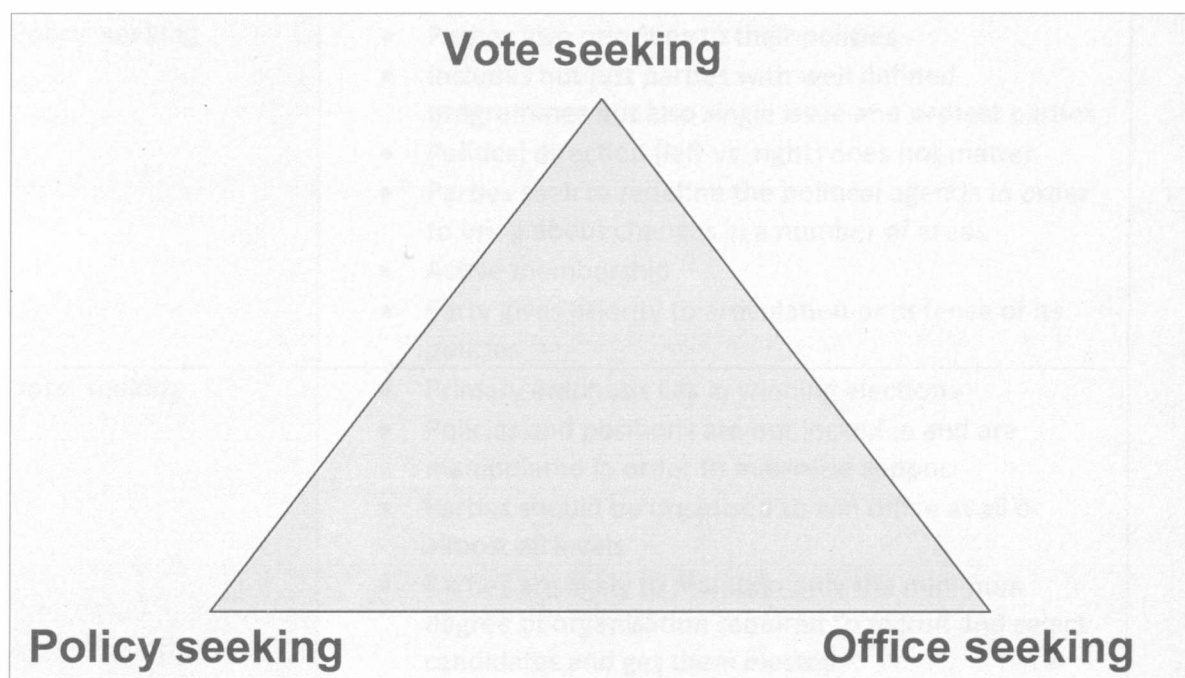
Political Parties: Organization and Power, Cambridge University Press, Cambridge. Poguntke, Thomas (1987): New Politics and Party Systems: The emergence of a new type of party?, *Western European Politics*, Vol. 10, No. 1, pp. 76-88. Katz, Richard S., Peter Mair (1995): Changing Models of Party Organisation and Party Democracy: The Emergence of the Cartel Party, *Party Politics*, Vol.1, No.1, pp. 5-28. Hopkin, Jonathan, Caterina Paolucci (1999): The Business Firm Model of Party Organization: Cases from Spain and Italy, *European Journal of Political Research*, Vol. 35, No. 3, pp. 307-339.

<sup>43</sup> See Wolinetz, Steven B. (2002): Beyond the Catch-All Party: Approaches to the Study of Parties and Party Organization in Contemporary Democracies, in: Gunther, Richard, José Ramón Montero, Juan J. Linz (eds.): *Political Parties: Old Concepts and New Challenges*, Oxford University Press, Oxford, p. 163.

<sup>44</sup> Ibid., p. 149.

<sup>45</sup> These categories originated in an earlier study by Kaare Strøm about circumstances under which parties enter or support minority governments.

**Figure 2<sup>46</sup>**



These categories are polar types (or ideal types in Max Weber's terms), meaning that a political party is very unlikely to be only policy, vote, or office seeking. Moreover, shifts in orientation within a party can be visually displayed as position shifts within the triangle. Taking into account that the categories of vote seeking and office seeking share obviously more with each other than with policy seeking, it remains to be clarified what kind of characteristics each pole comprises (see Figure 3).

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Taken from See Wolinetz, Steven B. (2002): Beyond the Catch-All Party: Approaches to the Study of Parties and Party Organization in Contemporary Democracies, in: Gunther, Richard, José Ramón Montero, Juan J. Linz (eds.): Political Parties: Old Concepts and New Challenges, Oxford University Press, Oxford, p. 151.

**Figure 3<sup>47</sup>**

<b>Policy seeking</b>	<ul style="list-style-type: none"> <li>• Parties give priorities to their policies</li> <li>• Includes not just parties with well defined programmes but also single issue and protest parties</li> <li>• Political direction (left vs. right) does not matter</li> <li>• Parties seek to redefine the political agenda in order to bring about changes in a number of areas</li> <li>• Active membership</li> <li>• Party gives priority to articulation or defence of its policies</li> </ul>
<b>Vote seeking</b>	<ul style="list-style-type: none"> <li>• Primary emphasis lies in winning elections</li> <li>• Policies and positions are not locked in and are manipulated in order to maximise support</li> <li>• Parties should be organised to win office at all or almost all levels</li> <li>• Parties are likely to maintain only the minimum degree of organisation required to recruit and select candidates and get them elected</li> <li>• Membership is kept at arm's length and has some say on candidates but little on policies</li> <li>• Organisation made up by party professionals, candidates, and would-be candidates</li> <li>• Volunteers are added if needed and for running election campaigns</li> <li>• Level of activity varies considerably</li> </ul>
<b>Office seeking</b>	<ul style="list-style-type: none"> <li>• Primary emphasis on securing government, even if it is at the expense of policy goals or maximising votes</li> <li>• Parties seek to either hold power or share power with others</li> <li>• Parties avoid policy commitments which might make them undesirable as coalition partner</li> <li>• Electoral strategies are designed for the goal (for instance do not attack a prospective coalition partner too fiercely).</li> <li>• The overall aim is to win enough votes to ensure inclusion in coalitions</li> <li>• Parties are likely to be organised to contest elections at different levels</li> <li>• Unlikely to attract activists whose primary concerns are policies</li> <li>• Participants are likely to be office holders or office seekers</li> </ul>

<sup>47</sup>

Information taken from *ibid.*, pp. 150 sqq.

This framework with its broad perspective provides the means for a comprehensive analysis of Third Way impact on Labour and the SPD, as it is able to take into account organisational and strategic alterations as well as changes as regards content of a party's programme. However, it is important to state here that, as Wolinetz intended his approach to be used, it will be adjusted to the particular question of research. So, not all aspects of these categories might be equally important.

The distinction of importance for this thesis is the one between policy seeking and vote seeking. The office seeking dimension applies more to smaller parties aiming to secure inclusion in a government coalition. Neither case investigated here falls into this category, so the interesting aspects to be identified in this study are potential shifts of a party's position between policy and vote seeking.

## **2.3 Analytical Approaches to Comparative Government and Policy Change**

### **Analysis**

The analyses of governmental policies in this thesis are concerned with a double comparison. The first, but minor, question concerns: what were the starting conditions for the SPD and Labour in government in their respective countries and what sort of change did they introduce compared to their predecessor government? The core question here is how a potential policy change is set in relation to a government change in a 'before and after' (longitudinal) comparison. The second dimension of comparison concerns the relationship between Labour and the SPD in government. Is there something like a Third Way set of policies that was implemented across borders in Germany and the United Kingdom? If yes, what were these policies?

The identification of a government change is very simple, as elections produce facts, empirical results, that lead to a change of government. On a policy level however, finding facts is not so easy. The theoretical challenge lays in the development of an effective analytical framework that can recognise a potential change of policies in the wake of a change of government. A change of government does not necessarily trigger a change of policies. Also, policy change can be unintended, for instance triggered by changes in the political framework or personal behaviour of the political players. In a 'before and after' comparative analysis of policy change in one country, the primary task is to identify the areas of change and weigh them.<sup>48</sup>

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See Voruba, Georg (2003): Making a difference. Die Konstruktion von Unterschieden. Kommentar zur Kernfrage, in: Gohr, Antonia, Martin Seeleib-Kaiser (eds.): Sozial- und Wirtschaftspolitik unter Rot-Grün, Westdeutscher Verlag, Wiesbaden, pp. 29 sqq.

In the social sciences, the mechanisms of policy change are seen very diversely. Martin Seeleib-Kaiser, in his introduction to this theoretical problem, summarises the existing approaches in three main categories: markets, parties, and institutions.<sup>49</sup>

One strand of social science puts the 'market' at the heart of their policy change analysis. According to this approach, external, market-induced factors determine policies. The original thesis of modernisation theory, argued by Harold Wilensky, assigned only a minor role to political parties. As developed democracies become richer, they build up similar welfare policies regardless of their economic and political system.<sup>50</sup> As Seeleib-Kaiser argued this thesis has been reversed in the more recent academic debate and now leads to the question: regardless of the political and economic system, does globalisation lead to a downward development of the welfare state and necessarily trigger a transformation of states into competition-oriented states? Or in other words, does globalisation, in interplay with other market-relevant factors such as demographic change and unemployment, force a relatively unitary set of policies upon government and dominate other potential policy-determining factors?<sup>51</sup>

The second school of thought puts a much bigger emphasise on political parties and their role in policy making and policy change. Based on the 'partisan theory' developed by Douglas Hibbs Jr., there is a clear difference between conservative and social democratic parties in government. Hibbs argues that social democratic

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<sup>49</sup> Seeleib-Kaiser, Martin (2003): Politikwechsel nach Machtwechsel?, in: Gohr, Antonia, Martin Seeleib-Kaiser (eds.): Sozial- und Wirtschaftspolitik unter Rot-Grün, Westdeutscher Verlag, Wiesbaden, pp. 11 sqq.

<sup>50</sup> For further details about Wilensky's work see Wilensky, Harold (2002): Rich Democracies. Political Economy, Public Policy, and Peformance, University of California Press, Berkeley.

<sup>51</sup> Seeleib-Kaiser, Martin (2003): Politikwechsel nach Machtwechsel?, in: Gohr, Antonia, Martin Seeleib-Kaiser (eds.): Sozial- und Wirtschaftspolitik unter Rot-Grün, Westdeutscher Verlag, Wiesbaden, pp. 12 sqq.

governments tend to put their focus on low unemployment at the expense of high inflation rates. Conservative governments, on the other hand, tend to set their priorities in the exact opposite: their prime concern is a low inflation rate and for achieving this they are willing to accept a relatively high level of unemployment.<sup>52</sup> The reason for this governmental behaviour lays, according to Hibbs, in the representation of specific interest: 'The general conclusion is that governments pursue macroeconomic policies broadly in accordance with the objective economic interests and subjective preferences of their class-defined core political constituents'.<sup>53</sup> A further argument for the influence of political parties on policy making is the widely held assumption that especially social democratic parties played an instrumental role in devising the different welfare systems we know today.<sup>54</sup>

In the wake of the weakening of traditional party electorates and the dissolution of old class structures, Hibb's argument came under pressure. Some political scientists even went so far as to argue that '[i]n advanced industrial democracies, parties can no longer offer voters stark alternatives on the distributive dimension'.<sup>55</sup>

Regardless of the pressure this theory has come under in recent years, it is still a very important question whether political parties do make a difference in government. In the light of electoral competition, it seems unlikely that major competitor parties would go as far as to offer no political choice at election

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<sup>52</sup> See Hibbs, Douglas A. Jr. (1977): Political Parties and Macroeconomic Policy, *The American Political Science Review*, Vol. 71, No. 4, pp. 1467-1487.

<sup>53</sup> Ibid, p. 1467.

<sup>54</sup> See amongst other relevant publications Albers, Detlev, Stephen Haseler and Henning Meyer (eds.) (2006): Social Europe: An Introduction, in: Albers, Detlev, Stephen Haseler, Henning Meyer: Social Europe: A Continent's Answer to Market Fundamentalism, European Research Forum at London Metropolitan University, London, pp. 1 sqq.

<sup>55</sup> Kitschelt, Herbert (1994): The Transformation of European Social Democracy, Cambridge University Press, Cambridge, p. 294.

whatsoever and accept external pressures as the only policy determinants. Even in times of looser party affiliation and an increasing number of swing voters, the complete abandonment of political differences is unfeasible and, by the withdrawal of choice, would also undermine the foundations of democracy itself. Also, a series of empirical studies argue the contrary case that a unification of policies across parties and party families is not taking place.<sup>56</sup>

For a party to trigger changes in governmental policies, it is a prerequisite that it **wants** to make changes. Following from this point there must be a clearly identifiable difference in programmatic outlook as proof that change is intended. Hence, an alternative programme must be in place if a party really wants to make a defining impact on policy making.

The third and last area in the scientific analysis of policy making is the institutional level. The institutional framework in which policies are made influences, or to a degree even determines, policy output. In the institutional context, the respective political system, including the electoral system, the party system, and the integration of societal players – such as for instance employer associations and trade unions - are important factors in policy decision-making. The specific institutional setup does not only determine the means and constraints that are in place but also sets the parameters for tactical political behaviour. In comparison to the other scientific strands of 'market' and 'party' determination of policy, these institutional factors are well suited for comparison as they are easier to grasp empirically.

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See amongst others Schmidt, Manfred G. (1996): When parties matter: A review of the possibilities and limits of partisan influence on public policy, *European Journal of Political Research*, Vol. 30, pp.155-183, and Budge, Ian, Hans Keman (1993): *Parties and Democracies*, Oxford University Press, Oxford.



However, none of these approaches on its own is sufficient for a comprehensive study. As Manfred G. Schmidt very convincingly argued:

In order to arrive at a full understanding of the determinants of public policy, it is [...] mandatory in the comparative study of public policy to focus attention on all the key variables suggested in the literature.<sup>57</sup>

The question is how these strands of scientific analysis can be brought together to provide a valid analytical tool not only for the longitudinal comparison within a country but also for the comparison of the governmental experience between the United Kingdom and Germany.

How political programmes are actually constructed provides a first starting point for a synthesis of these different approaches. On the basis that political parties want to offer solutions to a problem or a set of problems, the process of developing a programme within a party does involve a political or subjective identification of the problems themselves. Political problems are not objectively perceived. This leads to the assumption that if the 'market' determines policy making, these political market constraints must be integrated and thus be traceable in political programmes. If the 'market' dominates policy making, it must dominate the policy choices of parties because 'markets' can only determine policy making if they dominate the agents (parties and their office holders) and institutions (political system) of policy making. Markets cannot take or execute public policy decisions themselves. Therefore, their policy pressure must be exercised via legitimised political decision-makers.

On this basis a first analytical step must be the analysis of the party programme as input into a new government. In this thesis, this will be done in much detail and with a wide historical scope to develop a far-reaching understanding of programmatic

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Schmidt, Manfred G. (1996): When parties matter: A review of the possibilities and limits of partisan influence on public policy, *European Journal of Political Research*, Vol. 30, p. 170.

development and change. This will be done in the fourth and fifth chapters of this thesis. The theoretical details for this approach were set out in the last section of this chapter. The analysis of political ideas is an indispensable starting point for the analysis of policy making and policy change.<sup>58</sup>

In a second step, institutional factors and their influence on policy making need to be analysed. The institutional set-up of a state defines the room for manoeuvre of its respective government. In this respect, there are huge differences between the United Kingdom and Germany. Broadly speaking, the freedom to manoeuvre correlates with the organisation of a state varying from centralised states (few constraints) to federal states (many constraints). A closer look at the United Kingdom and Germany indeed shows that both countries represent opposing poles in the spectrum on institutional constraints on policy making.

Germany has been coined a 'Grand Coalition State' as in many cases it is impossible to avoid formal or informal cooperation between the two major parties SPD and CDU/CSU. The close entanglement inherent in the federal structure of Germany, due to which many laws also need to pass the second chamber *Bundesrat*, where the *Länder* governments are represented, makes this cooperation necessary. The cooperation between the two major parties is necessary because of the fact that, throughout the history of the Federal Republic of Germany (FRG), the main federal opposition party has tended to have a majority in the second chamber. Also the *Bundesverfassungsgericht* (German constitutional court) can potentially exert

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See Seeleib-Kaiser, Martin (2003): Politikwechsel nach Machtwechsel?, in: Gohr, Antonia, Martin Seeleib-Kaiser (eds.): *Sozial- und Wirtschaftspolitik unter Rot-Grün*, Westdeutscher Verlag, Wiesbaden, p. 24, and Blyth, Mark (2001): The transformation of the Swedish Model: Economic Ideas, Distributional Conflict, and Institutional Change, *World Politics*, Vol. 54, No. 1, pp. 1-26.

institutional constraints by ruling out laws.<sup>59</sup> This wide-ranging system of checks and balances was intentionally introduced in the German *Grundgesetz* following the experiences of the Weimar Republic. In institutional terms, this system of checks and balances puts a significant constraint on policy change.<sup>60</sup>

In the United Kingdom on the contrary, despite the introduction of devolution under the New Labour government, there are much fewer institutional constraints on the government. Governing parties usually enjoy comfortable majorities in the House of Commons due to the 'first-past-the-post' electoral system and there is no second chamber that can exert huge amounts of policy pressure on the government following several House of Lords reforms since the early 20<sup>th</sup> century. Comprehensive policy changes, such as under the Attlee and the Thatcher governments, are indicators of the looser institutional structure.<sup>61</sup>

The German political scientist Manfred G. Schmidt developed a scheme with which institutional constraints can be measured. The scale varies from 0 to 5, the latter identifying the most significant constraints. On this scale, Germany is classified in category 5, whereas the United Kingdom is only to be found in category 1.<sup>62</sup>

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<sup>59</sup> It however only judges a law if it is called to do so. Therefore it is not a permanent institutional veto player.

<sup>60</sup> See Seeleib-Kaiser, Martin (2003): Politikwechsel nach Machtwechsel?, in: Gohr, Antonia, Martin Seeleib-Kaiser (ed.): *Sozial- und Wirtschaftspolitik unter Rot-Grün*, Westdeutscher Verlag, Wiesbaden, p. 174.

<sup>61</sup> See *ibid.*

<sup>62</sup> See *ibid.*, p. 172. See also Busch, Andreas, Philip Manow (2001): The SPD and the Neue Mitte in Germany, in: White, Stuart (ed.): *New Labour: The Progressive Future?*, Palgrave, New York, p. 179.

## 2.4 Veto Player Theory and the Measuring of Policy Change

In order to analyse and evaluate the different institutional constraints and their influence on policy change in more detail, the 'veto player' theory of George Tsebelis, which has been on the rise in scientific circles in recent years, provides a useful analytical tool. Especially for the angle of this study, Tsebelis' theory appears useful as it is 'policy consequential' meaning that 'it takes policy outcomes as its primary concern and works its way backward to institutional and partisan characteristics that are responsible for the production of specific policy outcomes'.<sup>63</sup>

Another doubtless strength of the veto player theory is that it applies the same investigative framework to all cases, regardless of whether they are located in presidential or parliamentary regimes, two or multi-party systems, or work on a unicameral or a bicameral legislature.<sup>64</sup> Tsebelis himself provided a crisp summary of what the veto player theory is about:

In a nutshell, the basic argument [...] is the following: In order to change policies – or [...] to change the (legislative) status quo – a certain number of individual or collective actors have to agree to the proposed change. I call such actors *veto players*. Veto players are specified in a country by the constitution (the president, the House, and the Senate in the United States) or by the political system (the different parties that are members of a government in Western Europe). I call these two different types of veto players *institutional* and *partisan* veto players, respectively.<sup>65</sup>

Institutional veto players include all institutions that have a stake in potential policy change. Partisan veto players, in contrast, are all parties that belong to a government (coalition). The total number of veto players however does not necessarily correspond with the total sum of added up institutional and partisan veto players.

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<sup>63</sup> Tsebelis, George (1999): Veto Players and Law Production in Parliamentary Democracies: An Empirical Analysis, *American Political Science Review*, Vol. 93, No. 3, p. 591.

<sup>64</sup> See *ibid.*

<sup>65</sup> Tsebelis, George (2002): Veto Players: How Political Institutions Work, Princeton University Press, Princeton, p. 2.

According to Tsebelis' 'absorption rule', the 'location' of a particular veto player is of importance too. If for instance a party (partisan veto player) disposes of a majority in two chambers of parliament, the two chambers are considered as one veto player rather than two. In contrast to different majorities in both chambers of parliament, when each parliamentary chamber would constitute an individual veto player, the policy preferences of both chambers are seen to be identical if the political majorities are the same. Both chambers thus represent only one veto player.<sup>66</sup>

Additionally to the institutional and partisan veto players, which are the core of his theory, Tsebelis argues that depending on the policy field, there can also be further veto players such as courts, the military, central banks and so on and so forth that can influence policy outcome. Hence an investigation across different policy areas might lead to a slightly different set of veto players to be investigated, depending on whether more than institutional and partisan veto players have a stake in decision-making or not. Tsebelis' general hypothesis is that the more veto player you have, the less likely a policy change is because all veto players have to agree to change the status quo.

Tsebelis' veto player theory corresponds to other analyses that see the institutional set-up of a particular state as a structural factor in policy making.<sup>67</sup> In that sense how 'easy' or 'hard' it is to change policy directions does also depend on the political system. Additionally to this, however, the veto player theory allows for the detection, evaluation and comparison of individual players in policy making across political systems. Another distinct advantage of this approach is that it brings the 'party' and the 'institutional' dimension of policy making together into one analytical

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<sup>66</sup> See *ibid*, p. 12.

<sup>67</sup> See for instance Schmidt, Manfred G. (1996): When parties matter: A review of the possibilities and limits of partisan influence on public policy, *European Journal of Political Research*, Vol. 30, p. 155-183.

framework. This is a feature that is particularly helpful for the analysis in this thesis. It is important to stress however, that even if the veto player theory is applied to the cases investigated here, the actual evaluation or weighting of the veto players still requires a thorough qualitative analysis of the scrutinised bodies.

What veto players can be found in the political systems of Germany and the UK? As mentioned earlier, in political science the German political system is generally seen as very rigid.<sup>68</sup> In general terms, depending on whether a 'grand coalition' or a coalition with one of the big and one of the smaller parties is governing – there has not been a governing coalition in Germany with more than two parties since 1957<sup>69</sup> - there are two or three veto players in the German political system. In a 'grand coalition', one can identify two partisan veto players; the two big parties in the governing coalition. This is because such a coalition normally disposes of a majority in the first chamber *Bundestag* as well as in the second chamber *Bundesrat*. Because of the same majorities in both chambers, the 'absorption' rule applies, meaning that the *Bundesrat* as institutional veto player is taken out of the game.

During the government period considered in this thesis however, the red-green coalition faced three veto players. Two partisan veto players – the SPD and the Greens as governing parties – and the institutional veto player *Bundesrat*, following the change to a conservative-liberal majority in the second chamber in 1999.

Some political scientists such as Wolfgang Merkel have pointed to the need to amend the veto player theory with a deeper qualitative analysis of the veto players

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<sup>68</sup> See for instance Katzenstein, Peter (1987): Policy and politics in West Germany: The growth of a semisovereign state, Temple University Press, Philadelphia. Lijphart, Arend (1999): Patterns of Democracy: Government Forms and Performance in Thirty-six countries, Yale University Press, New Haven.

<sup>69</sup> See Kimmel, Adolf (2004): The German Party System, in: Haseler, Stephen, Henning Meyer (eds.) (2004): Reshaping Social Democracy: Labour and the SPD in the New Century, European Research Forum at London Metropolitan University, London, p. 59.

and the environment of policy making. It is for instance important to point out, that only 52.2<sup>70</sup> per cent of German laws passed between 1949 and 1998 needed the acceptance of the *Bundesrat* to be enforced.<sup>71</sup> Hence, in almost half the cases legislation can be passed regardless of the majority in the second chamber. It is thus a veto player in roughly half the legislative initiatives.<sup>72</sup>

Also, the representatives in the *Bundesrat* themselves represent coalitions on state level, which can result in different tactical positions and conflicts of interests with the federal level. Hence, *Länder* minister presidents are known for not always following the line of the central party in all cases. The most prominent case of conflict resulting from a state coalition was the vote on the new immigration law in 2002. The representatives of the grand coalition governing Brandenburg cast opposing votes for the same *Land* what is not foreseen in the constitution. The incident had to be settled at the *Bundesverfassungsgericht*.<sup>73</sup>

It is therefore clear that Tsebelis' veto player theory indeed provides a valuable analytical starting point that however needs additional qualitative scrutiny in order to be comprehensive. This becomes even clearer if we look at the veto player set-up of the United Kingdom.

The situation in Britain is comparatively simple as there is only one veto player: the British Labour Party itself. The fact that Britain is *de facto* a unicameral parliamentary system combined with the 'first-past-the-post' electoral system, that

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<sup>70</sup> This figure is taken from Wolfgang Merkel, other authors present somewhat higher figures (see Chapter 7).

<sup>71</sup> The general rule is that laws need the approval of the *Bundesrat* if the interests of the states are touched by new legislation.

<sup>72</sup> See Merkel, Wolfgang (2003): *Institutionen und Reformpolitik: Drei Fallstudien zur Vetospieler-Theorie*, in: Egle, Christoph, Tobias Ostheim, Reimut Zohnhöfer (eds.): Das Rot-Grüne Projekt: Eine Bilanz der Regierung Schröder 1998 – 2002, Westdeutscher Verlag, Wiesbaden, pp. 167 sqq.

<sup>73</sup> See Leicht, Robert (2003): *Sieg der Rituale*, DIE ZEIT, No. 1.

normally produces stable majorities for one party in parliament, leads to the dominance of one party in the majority of cases.<sup>74</sup> Only in a hung parliament resulting in a coalition government or in a national government in a crisis situation would the number of veto players increase in the British case. The veto player theory however underestimates the policy influence of the British House of Lords. This shortcoming will be addressed in more detail in Chapter 6.

It is obvious, that if Tsebelis' theory only produces one veto player in a case, it is simply insufficient as an analytical tool. Even in the German case, where three veto players can be identified, the veto player approach reveals - as mentioned - substantial shortcomings.<sup>75</sup> A substantive qualitative scrutiny is needed on top of the veto player theory.

The last analytical tool needed is a measure for the policy change if it takes place. In this field, a framework developed by Peter Hall fulfils this function. According to Hall, there can be policy changes of three different orders based on the characteristics of the policy making process:

We can think of policymaking as a process that usually involves three central variables: the overarching goals that guide policy in a particular field, the techniques policy instruments used to attain those goals, and the precise setting of these instruments. For instance, if the goal of the policy is to alleviate the financial problems of the elderly, the chosen instrument might be an old age pension, and its setting would be the level at which benefits were set.<sup>76</sup>

According to this view of the policy making process, a 'first order' change is a change in the setting (in Hall's example the level of the pension), the political means

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<sup>74</sup> See Tsebelis, George (2002): *Veto Players: How Political Institutions Work*, Princeton University Press, Princeton, pp. 78 sqq.

<sup>75</sup> See Merkel, Wolfgang (2003): Institutionen und Reformpolitik: Drei Fallstudien zur Vetospieler-Theorie, in: Egle, Christoph, Tobias Ostheim, Reimut Zohlnhöfer (eds.): *Das Rot-Grüne Projekt: Eine Bilanz der Regierung Schröder 1998 – 2002*, Westdeutscher Verlag, Wiesbaden, pp. 186 sqq.

<sup>76</sup> See Hall, Peter (1993): Policy Paradigms, Social Learning, and the State: The Case of Economic Policymaking in Britain, *Comparative Politics*, Vol. 25, No. 3, p. 278.



(pension) and the political goal remain the same. A 'second order' change would involve a change of the political means (for instance tax relief for children that keep their parents at their own cost in their households instead of a pension paid directly to the pensioner). And finally, a 'third order' change would entail a change of the political goal itself (alleviating financial problems of the elderly is no longer a priority). A third order change is very rare and obviously also changes the second and the first order of policy making. A second order change also alters the first order.

## **2.5 Conclusion and International Third Way**

This chapter presented an overview of some of the existing theoretical approaches in comparative politics and on this basis developed an adjusted theoretical approach for the scrutiny conducted here. It defined the variables that are explored and the categories applied in this work. The analysis is arranged on three different levels that became obvious following this theoretical review. As the dynamics of Third Way influence are different on these levels, such a distinction is necessary to achieve conclusive analytical results.

The Third Way in the party setting, or the 'Partisan Third Way', will be identified and investigated in the following way: the foundation is laid by carrying out a qualitative historic analysis of the Third Way origins in the United States Democratic Party, working out a set of key Third Way features. This will be followed by determining the impact of this original Third Way on the Labour Party and the SPD. In order to understand the weight of this concept on the programmatic development of a party, it is indispensable to take a far-reaching historical view, as otherwise many important characteristic party features, that define the Third Ways' position in the respective party culture, would be excluded from the analysis. It also provides a deeper understanding of other party developments, which helps to locate the Third Way alongside other influences and offers conclusive explanations about the relationships between different influences at work.

The quality of Third Way impact is measurable using Richard Rose's model of 'lesson drawing' that provides five different levels of programmatic transfer. Last but not least, the question of how the Third Way impact changed the classification of the party as a whole can be answered by means of Wolinetz' party categories. As Wolinetz'

argued, the framework he provided needs to be adopted to the individual study. In this context, this means placing the primary line of division between policy seeking on the one hand and vote seeking on the other hand.

On the basis of the Partisan Third Way, the governmental policies – and the Third Way impact on them – of the Labour Party and the SPD are explored on a longitudinal as well as on a comparative axis. This level will be called the ‘Governmental Third Way’. The longitudinal exploration very briefly analyses a ‘before and after’ policy change following the change of government in the United Kingdom and Germany. The second, latitudinal, comparison conducts a cross-country study between the Labour government in the United Kingdom and the German SPD-led government.

In the social sciences, there are three main strands in the analysis of policy change: markets, parties and institutions. A comprehensive analysis needs to reflect on all three of these influences. As shown, the ‘market’ aspect must unfold its policy making impact via parties and their office holders, as the ‘market’ as such cannot take policy decisions itself. ‘Market’ domination of policy making would then lead, as Kitschelt suggested, to a very limited scope of policy choices offered by the parties. At any rate however, ‘market’ influence must be detectable in party programmes.

This leaves the thorough investigations of the ‘party’ and ‘institutions’ levels of policy making. The ‘policy-consequential’ veto player theory by George Tsebelis provides a valuable starting point. The three veto players in the German and the one in the British political system however also need to be qualitatively analysed to reach comprehensive results.

The two levels so far comprise the Third Way in a party and in a governmental setting. The series of international ‘Progressive Governance’ conferences and the

intellectual debate about the Third Way – both important aspects of the concept – are not included in these categories. A qualitative analysis of the outcomes of the ‘progressive governance’ conferences and a review and evaluation of the academic debate about the Third Way will be carried out as the last step of analysis in this thesis. After establishing this level – what will be called the ‘International Third Way’<sup>77</sup> – a final conclusion setting all three levels of analysis in relation can be drawn.

As regards research methods, this study is based on the analysis of primary as well as secondary literature on the subject. Where the existing literature was patchy or in areas where new insights could deepen the understanding of a specific aspect, new primary research was conducted in the form of expert interviews.<sup>78</sup> Also, the active role of the author as part of the German delegation to the Progressive Governance conference in London in 2003 and in subsequent Third Way conferences has contributed significantly to the understanding of the International Third Way.

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<sup>77</sup> Both, the ‘progressive governance’ conference series as well as the academic debate about the Third Way were international in nature.

<sup>78</sup> For a list of all interviewees see Chapter 10.

# Chapter 3

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## The New Democrats and the Third Way – Conceptual Developments in the US

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### **Introduction**

In this chapter, the scrutiny of the American Third Way, in the sense of programmatic and structural developments, is the centre of attention. The starting point of any serious investigation of Third Way history and progress must be the concept of the (New) Democrats in the United States, since they have been the foundation of the discussion about progressive Third Way politics in the modern understanding of the term. In order to understand the developments of Labour and the SPD in Britain and Germany, one needs to bear the Third Way history of the US American Democratic Party in mind. At first, the reasons why the Democrats – or more specific a group of office holders within the Democrats - saw the need to adjust their political concepts will be addressed. On this basis, the operational elaboration of Third Way politics as a new public philosophy for Democrats must be analysed. What are the core messages of revisited Democratic politics? In what kind of institutional framework did this party renewal take place? And what were the results? These are the questions to be answered. Additionally, this chapter will analyse the way in which the New Democrats themselves were influenced by the developments of the British Labour Party. It is obvious that Democratic ideological renewal itself did not happen in a political vacuum. There have been Labour influences and impacts that in turn allow the renewal processes of the British Labour Party to be seen in a different light.

The governmental policies of the two Clinton administrations themselves cannot be examined in detail here since this would by far exceed the conceptual scope of this chapter and more importantly would dilute much of the results presented here<sup>79</sup>. Yet,

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<sup>79</sup> For instance the Lewinsky affair obviously had considerable impact on the Clinton administration. However, there is certainly no connection between the development of Third Way ideas in the context of the New Democrats and the Lewinsky impact that would be of any relevance for the

the analysis of the Democratic experience after Clinton's electoral victory in 1992 is limited to some structural problems in implementing the Third Way in office and other events that are evidently relevant to the developments in the British Labour Party and the German SPD. For example, the successful British general election in 1997, Gerhard Schröder's victory in the *Bundestagswahlen* of 1998 and the New Democrats' loss of power by the defeat in the presidential elections of 2000, despite Gore having won more votes, are important events that changed the direction of the Third Way debate. These events will be analysed from an American point of view in this chapter.

Following this examination, the important distinction between the Democrats in the United States with its political history and social democracy is considered. This distinction is of crucial importance because the transmission of concepts, as took place between the New Democrats and social democratic parties, needs to be seen on the basis that the Democrats do not constitute a social democratic party in a European sense.<sup>80</sup> This fact raises a very important question about New Labour: to what degree did New Labour take over ideas and how was it justified to adopt a non-social democratic philosophy for one of the most profound revisions of Labour Party politics and ideology ever?

One comment regarding the Democratic Party in the US published in *The Economist* in 1991 shall be reproduced here as it provides a fundamental reason for parties to reform and a valuable point to bear in mind when investigating the renewal of

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main focus of this thesis – the Third Way in the cases of the British Labour Party and the German SPD.

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Using the phrase 'social democracy in a European sense' does not imply that there are no important differences between social democratic parties across Europe. However, these differences are disregarded here to stress the even more fundamental difference between the ideological characteristics of the Democratic Party and the core of social democracy more effectively.

the Democrats in the US, Labour and the SPD, because it addresses the elementary reason for Third Way party renewal:

The Democratic Party now faces the same dilemma that all left-of-centre parties in rich societies must sooner or later confront. It believes that it has a historic mission to protect the poor, the disadvantaged, the sick and those who are discriminated against because of their race. But it has to win elections in a society that is overwhelmingly middle-class.<sup>81</sup>

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The Economist (1991): The white men in suits move in, May 11<sup>th</sup>.



### 3.1 The Origin of the Third Way Approach

The history of Third Way ideas in the United States is inseparably linked to the history of the Democratic Leadership Council (DLC) and the 'New Democrats'. Kenneth S. Baer explained in his book *Reinventing Democrats* the formation and objectives of the DLC as follows:

The DLC story begins in the aftermath of the election of Ronald Reagan in 1980 with a group of congressmen organized in the House Democratic Caucus. Under the leadership of Caucus Chairman Gillis Long of Louisiana and his top aide, Al From, these young, proto-New Democrats began the task of developing and promoting an alternative public philosophy to rejuvenate the defeated Democrats.<sup>82</sup>

The driving forces for the introduction of the DLC were the lost presidential elections in 1980 and Walter Mondale's defeat in 1984 resulting in the belief of the early New Democrats that the Democratic Party was not able to win a presidential election without a far-reaching revision of its public philosophy. There was a clear analysis of what was wrong with the Democratic Party. Because of close relationships to special interests groups, the party had been more and more seen as the advocate of minority interests, exploiting the middle class to pay for their programmes and completely ignoring the values and attitudes of the majority of Americans.<sup>83</sup>

In the wake of the 1984 elections, a far reaching debate about the future political direction of the Democrats emerged. In the context of this political battle, the New Democrats, a group of elected officials, keen on changing the perception of the party, wanted to obtain a strategic advantage by introducing a structure independent from the national party, the DLC, causing criticism by the Democratic National Committee (DNC). On the 28<sup>th</sup> of February 1985, the birth of the DLC was declared at a Capitol Hill press

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<sup>82</sup> Baer, Kenneth S. (2000): Reinventing Democrats: The Politics of Liberalism from Reagan to Clinton, Kansas University Press, Kansas, p. 7.

<sup>83</sup> Ibid., p. 77.

conference. Richard Gephardt became its first chairman. The newly founded extra-party organisation set itself the following objectives:

What the party needed, according to the DLC, was to be perceived as more moderate by the public; and to achieve this change, the party needed to reenlist Democratic elected officials into national party affairs, a function to be provided by the DLC. (...) And most of the DLC's activities for the next four years were oriented towards changing perceptions. Changing the image of the party, according to From, was the primary DLC 'mission' in the first four years.<sup>84</sup>

The step to found a political group outside the normal party structure whose task it is to change the public perception of the party was a decisive step. In Labour and the SPD, there are intra-party factions, networks and associations as well as diffuse conglomerates of opinions, but on the organisational level, there is no comparable structure to the introduction of a real extra-party organisation. However, the logic of shifting processes outside normal structures is also detectable in the British Labour Party.<sup>85</sup>

Furthermore, it is important to bear in mind that there were different intra-party groups in the Democrats in the mid-1980's: the dominating liberal faction, the Southern Democrats, a neoconservative group, a neoliberal group, and the new faction, the New Democrats, organised in the DLC.<sup>86</sup>

The New Democrats were a melting pot. In the mid-1980's under the majority of Southern Democrats, all aforementioned groups with the exception of the dominating liberal faction - that was identified with special interest representation - were in one way or another practically or ideologically represented in the New Democrats. The variety of

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<sup>84</sup> Hale, Jon F. (1995): *The Making of the New Democrats*, *Political Science Quarterly*, Vol. 110, No. 2, p. 215.

<sup>85</sup> The founding of new structures to minimise influence of specific groups on events has also happened in the British Labour Party. Labour's National Policy Forum shows some of these characteristics. This will be dealt with in more depth in the next chapter.

<sup>86</sup> One needs to point out here that the meanings of the terms 'conservative', 'liberal', and 'neoliberal' do not correspond to the European definitions, as for instance the dominating liberal faction sees as crucial point of economic policy the redistribution of wealth.

groups involved and the stressing of this variety in the New Democrats was consciously steered and coded under the name 'Big Tent Strategy'. Al From described this strategy as a key part of the rise of the DLC.<sup>87</sup>

The DLC found itself being attacked in the building up phase as being just the 'southern white boys caucus', since it was dominated by Southern Democrats and there were only very few black members. So, building a 'Big Tent' by including all kinds of different party groups was a strategy to limit the lines of attack against the still weak DLC. The fundamental function was to win enough time until the DLC was prepared to take on fights with the party establishment and win them. From tried to avoid the mistake of former party reformers like Senators Henry Jackson of Washington State and Patrick Moynihan of New York who took on the political battle with the party without being prepared to win. By that time, the DLC leadership did not think that this strategy had any influence on its general mission - revising the Democratic public philosophy - since they believed that in the long run, a diverse group of people would rally behind the new ideas anyway.<sup>88</sup>

My view was, the question of diversity was in some sense an unimportant question, because we were gonna be a diverse group in the long haul. But going out and stressing diversity at the beginning and having a so called Big Tent Strategy just meant that there were fewer people who took shots at us when we weren't strong enough to withstand them.<sup>89</sup>

The national party did not accept this development and established its own policy commission under the chairmanship of Scott Matheson. His commission wanted to formulate policies from the bottom up by organising public hearings for new inputs and thus make the DLC useless by fulfilling the same function within the party organisation. Yet, its place within the party structure made Matheson's commission

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<sup>87</sup> See Al From, interview by author, 16<sup>th</sup> December 2003.

<sup>88</sup> See Ibid.

<sup>89</sup> Ibid.

more accountable to the party establishment. Thus overthrowing policies could not happen as easy as within the free DLC structure. A paradox in this process was that there were a few politicians, for instance Bruce Babbitt, Arizona's governor at that time, who were members of both, the DNC commission and the DLC. *The Economist* hit the nail on the head in summarising the tensions between the different aims of the DNC and the DLC as follows:

Serious disagreement starts over whether the Democratic party needs a change in policy or merely a change in the electorate's understanding of that policy: is the message to be changed or just the method of conveying that message?<sup>90</sup>

As the 1988 presidential election approached, the New Democrats were keen to win the nomination race with one of their potential candidates. Institutionally, there was a change in the nominating process that was expected to be a bonus for them. A new primary ('Super Tuesday') was introduced by Southern Democrats of which many were organised in the DLC.<sup>91</sup> However, none of the New Democrats even reached the final phase of the nomination campaign and critical voices arose as to whether the DLC failed and whether it had a future in Democratic politics. This critique increased as it became clear that the Democrats would run the presidential election with Michael Dukakis, a candidate, who together with national party chairman Paul Kirk, managed to reduce much of the inner-party tensions and hence deprived many partisans from the New Democrats.

Not only did the New Democrats have a poor nomination process, the more substantial danger to them and the DLC was a victory of Michael Dukakis. A successful election on presidential level would have completely destroyed the basis on which the

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<sup>90</sup> The Economist (1985): Spring in the air – and in the Step of the Democrats, March 23<sup>rd</sup>.

<sup>91</sup> The 'Super Tuesday' regional primary encompassed fourteen southern states, where New Democrats were traditionally strong. The merger of these state primaries was considered to have a huge promotion potential for a New Democrat candidate.

DLC was founded; the belief that the Democrats needed to rethink and change their public philosophy in order to regain the potential to win the White House.

As Dukakis had to accept his 40-state loss against George Bush sen. however, the tide turned again. Indeed, it became evident that Democrats, even with a moderate candidate, were unable to win presidential elections in the political circumstances of 1988. So, the DLC's crisis in the nomination process before the presidential elections turned out to be a big strengthening after Dukakis' defeat. The DLC could claim that their analysis was correct.

So, the early years of the New Democrats were characterised by the establishing of its own independent political organisation, the Democratic Leadership Council. Its first big task was to hold its ground against the party establishment that was suspicious and rather hostile against an extra – party organisation. The first years of the DLC were dominated by the attempt to establish itself. By applying its so called 'Big Tent' strategy it managed to survive severe pressure from the party orthodoxy that wanted to avoid any DLC influence on the party. The establishment's measures against the DLC included founding its own committee with the same official objective and fighting New Democrat candidates successfully in the primaries prior to the 1988 elections. Electoral success on a presidential level by Michael Dukakis would have probably led to the extinction of the DLC as its basis would have completely eroded. However, the ongoing inability to win the White House, eventually resulted in more and more Democrats sharing the view of the DLC that the whole party message ought to be reviewed.

The origin of the New Democrats was the analysis that there must be a clear change of party perception to realise the overall aim of electoral success at presidential level. By means of the DLC, these New Democrats were keen to pursue this change.

However until the 1988 presidential elections, the New Democrats were unable to develop this new public philosophy, as regards content, due to the fight for establishing the DLC mentioned earlier. The 'Big Tent' strategy worked for the survival of the DLC but certainly obstructed the development of the desired new public philosophy as the political messages at the beginning had to be weak to avoid opening battles which the DLC was not prepared to fight successfully. However, after the positive impulse for the DLC following Dukakis' defeat, this changed and the development of the new governing philosophy was initiated.

### **3.2     Shaping the New Public Philosophy**

It has been a firm DLC belief that a change of public philosophy was just possible by occupying crucial positions within the party: the party chairman or even better the presidential candidate.<sup>92</sup> The next opportunity after the unsuccessful nomination process of 1988 was the election of a new party chairman. Aware of this, From started a campaign for Bruce Babbitt to become the successor to the old chairman Paul Kirk, who to the disappointment of many Democratic leaders stepped down after the 1988 defeat.<sup>93</sup> In the end however, because of his close ties to the influential Edward Kennedy and Jesse Jackson, Ronald Brown, a Washington lawyer, won the chairmanship race and became the first black party chairman ever in US history. Bruce Babbitt decided not even to enter the contest when he realised that he did not have the necessary support in the party.<sup>94</sup> This failure to take power in the national party obliged the DLC to work on as an extra-party organisation with no direct influence in the highest party positions.

As a result, the Dukakis defeat and the inability to assume the office of party chairman triggered a shift of paradigms in the DLC. It now focused more closely on winning the next presidential nomination and most notably introducing a defining new public philosophy opposing the old Democratic agenda. Regarding the new philosophy, the Big Tent Strategy had obstructed its development as the diverse groups involved in the DLC forced it to take moderate points of view. After 1988, the DLC focused on developing a new philosophical manifesto and equipping a candidate with these ideas to win the presidential nomination and eventually the White House.<sup>95</sup>

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<sup>92</sup> See Baer, Kenneth S. (2000): Reinventing Democrats: The Politics of Liberalism from Reagan to Clinton, Kansas University Press, Kansas, p. 127.

<sup>93</sup> See The Economist (1988): Empty Chair, December 10<sup>th</sup>.

<sup>94</sup> See Baer, Kenneth S. (2000): Reinventing Democrats: The Politics of Liberalism from Reagan to Clinton, Kansas University Press, Kansas, pp. 127f.

<sup>95</sup> See Ibid., p. 128f.



Adjusting to the new circumstances, the DLC expanded its organisational structure by founding its own think tank, the Progressive Policy Institute (PPI), in 1989. Regarding its work with the media, the DLC applied a more direct strategy: by the intensification of contacts in the public media, by introducing their own magazine *The New Democrat*, and by publicising PPI policy and discussion papers, the DLC aimed at winning grass-root support.

The analysis of some key DLC and PPI documents provides important results for the understanding of the New Democrat message. The PPI started folding the 'Big Tent' by attacking Democratic politics in its paper *The Politics of Evasion: Democrats and the Presidency* in 1989. William Galston and Ellaine Ciulla Karmack balanced accounts with the 'myths' old Democrats put forward in order to explain their electoral failure and named their reasons:

Democrats have ignored their fundamental problems. (...) In place of reality they have offered wishful thinking; in place of analysis, myth. The systematic denial of reality – the politics of evasion – continues unabated today (...) [...] Its central purpose is the avoidance of meaningful change. It reflects the convictions of groups who believed that it is somehow immoral for a political party to pay attention to the public opinion.<sup>96</sup>

Generally, three lines of argument were identified in the explanation of old Democrats: first, Democrats claim that electoral failure was because they moved too far away from their historical roots; second, to regain the potential to win presidential elections one must simply find a way to bring the group of non-voters to the ballot; and third, the occupation of the majority of offices below the presidency is clear evidence that there is nothing profoundly wrong with the Democratic Party.<sup>97</sup> In contrast, the only feasible way out of this desperate situation, suggested by the authors of the first

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<sup>96</sup> Galston, William, Ellaine Ciulla Karmack (1989): *The Politics of Evasion: Democrats and the Presidency*, available at [http://www.ppionline.org/documents/Politics\\_of\\_Evasion.pdf](http://www.ppionline.org/documents/Politics_of_Evasion.pdf).

<sup>97</sup> Ibid.

important PPI document, was to address its own weaknesses directly and counter them by developing a new public philosophy, more appealing to the middle-class of American society.

The *Politics of Evasion* paper was also the first major reference to the development of another party. It is remarkable, that it was the British Labour Party that was mentioned as example of a party being tired of losing elections and therefore ‘dumped some of its extreme left stance’.<sup>98</sup> The year 1989 also marked the starting point of more intensive contacts between Labour and the New Democrats. Shortly after the setting up of the PPI, Patricia Hewitt, by that time working for the Institute for Public Policy Research (IPPR) went to Washington to discuss common experiences with Will Marshall, former DLC Policy Director and Co-Founder and Director of PPI.<sup>99</sup> The most significant topic of these initial contacts was the difference in party structures between the Democrats and Labour and in what kind of situations this left the parties. This meeting would have direct influence on the format in which the New Democrat agenda would be introduced in 1991. At this stage of the New Democrat evolution the experience of the British Labour Party provided important input for the developments in the US. As Al From put it, Neil Kinnock’s Policy Review process of the 1980’s was a blueprint for how to liberate a party from outdated positions; a liberation that was regarded to be also necessary for the Democrats.<sup>100</sup>

The first revelation of the new public philosophy content was the ‘New Orleans Declaration’ presented at the fourth annual DLC conference in 1990. The most important message was that:

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<sup>98</sup> Ibid.

<sup>99</sup> See Will Marshall, interview by author, 10<sup>th</sup> February 2004.

<sup>100</sup> See Al From, interview by author, 16th December 2003.

In keeping with our party's grand tradition, we share Jefferson's belief in individual liberty and responsibility. We endorse Jackson's credo of equal opportunity for all, and special privileges for none. We embrace Roosevelt's thirst for innovation, and Truman's sense in the uncommon sense of common men and women. We carry on Kennedy's summons to civic duty and public service, Johnson's passion for social justice, and Carter's commitment to human rights.<sup>101</sup>

The DLC applied an intelligent strategy to convince party members suspicious of the new ideas: the new set of principles was presented as a reapplication of guiding themes and values of important former party figures. By stressing that the new public philosophy was set upon the basis of traditional approaches, the DLC tried to resolve all doubts that they were Crypto-Republicans, an accusation which obstinately stuck to the organisation. The *New Orleans Declaration* was seen by the DLC as a renewal of liberalism that differed from old Democratic liberalism as well as from Republicanism. Therefore, they called their new philosophy a Third Way.<sup>102</sup>

For one year, the message of the *New Orleans Declaration* was tested all over the country.<sup>103</sup> The whole of the new ideological identity of the New Democrats, the core beliefs of the American Third Way, was officially launched at the Cleveland Convention of 1991. At this crucial event, the influence of the British Labour Party's experience became obvious.

The history of the New Democrats from their starting point in the early 1980s until the Cleveland Convention in 1991 revealed one constant problem: democratic legitimacy. Their whole organisational structure has never possessed any democratic legitimacy and in fact New Democrat candidates have not done well in democratic competitions such as the nomination process in 1988 or the battle for the party chairmanship. So, the problem arose of how to present the new public philosophy as not

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<sup>101</sup> DLC (1990): The New Orleans Declaration. Statement Endorsed at the Fourth Annual DLC Conference, available at [http://www.ndol.org/ndol\\_ci.cfm?contentid=878&kaid=128&subid=174](http://www.ndol.org/ndol_ci.cfm?contentid=878&kaid=128&subid=174).

<sup>102</sup> See Al From, interview by author, 16<sup>th</sup> December 2003.

<sup>103</sup> Ibid.

only the best working one for the Democratic Party but also a legitimate one.

Furthermore, parties in the United States are much looser than European ones which makes it hard to determine a legitimate course for the whole of a party. So the question was: how can an extra-party organisation impose its ideas on a party with no real leadership, on a 'beast with no head'?<sup>104</sup>

A fact about European parties and especially about the Labour Party that the New Democrats found very appealing is that according to their perspective, party conferences allow the party executive to convince the grassroots to adopt and legitimise the leadership's policies. Therefore, the Cleveland Convention where the New Democrats established their new ideology was set up like a party conference in a European sense inspired by the first meeting between Labour and the Democrats in 1989. The convention organiser Will Marshall summarised this strategy as follows:

The Cleveland Convention was our best attempt to approximate a Labour Party conference in an American context where we really do not have disciplined parties and conferences where policies are set. So, in Cleveland we wrote a bunch of resolutions and you had votes on them and actually we had to go down to the floor and whip these votes to get people to agree and passed a set of resolutions that (...) codified the New Democrat / Clinton school of thought (...). So, that was the fruit of the first encounter between New Democrats and New Labour.<sup>105</sup>

However, one must say that the delegates to this convention were not elected on local level but came by invitation from the DLC / PPI only. So, the Cleveland Convention was a stage managed political show to give the launch of the new philosophy power and legitimacy.

But what was the content of the American Third Way? The following chart, which includes the 'New American Choice Resolution', adopted at the Cleveland convention

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<sup>104</sup> Will Marshall, interview by author, 10<sup>th</sup> February 2004.

<sup>105</sup> Ibid.



and its testing predecessor *New Orleans Declaration* shows the new public philosophy constructed around the core themes ‘opportunity, responsibility, and community’<sup>106</sup>

divided into policy fields:

**Figure 4**<sup>107</sup>

Policy Field	We believe ...
<i>economic and social policy</i>	<p>... the promise of America is equal opportunity, not equal outcomes<sup>108</sup></p> <p>... the Democratic Party's fundamental mission is to expand opportunities</p> <p>... that economic growth is the prerequisite to expanding opportunity for everyone (...)</p> <p>... the right way to rebuild America's economic security is to invest in skills and ingenuity of our people, and to expand trade, not restrict it</p> <p>... that a progressive tax system is the only fair way (...)</p> <p>... that America needs a national strategy to compete for the best jobs in the world</p>
<i>public policy</i>	<p>... in the politics of inclusion. Our party has historically been the means by which aspiring Americans from every background have achieved equal rights and full citizenship</p> <p>... that all claims on government are not equal. Our leader must reject demands that are less worthy, and hold to clear governing priorities</p> <p>... in preventing crime and punishing criminals, not explaining away their behaviour</p> <p>... in the protection of civil rights (...) not racial, gender or ethnic separatism. (...)</p> <p>... government should respect individual liberty and stay out of private lives and personal decisions</p> <p>... in the moral and cultural values most Americans share: liberty of conscience, individual responsibility, tolerance of difference, the imperative of work, the need for faith, and the importance of family</p> <p>... that American citizenship entails responsibility as well as rights, and we mean to ask our citizens to give something back to their</p>

<sup>106</sup> Al From, interview by author, 16<sup>th</sup> December 2003.

<sup>107</sup> Information taken from: DLC (1990): The New Orleans Declaration. Statement Endorsed at the Fourth Annual DLC Conference, available at [http://www.ndol.org/ndol\\_ci.cfm?contentid=878&kaid=128&subid=174](http://www.ndol.org/ndol_ci.cfm?contentid=878&kaid=128&subid=174), and DLC (1991): The New American Choice Resolution, available at [http://www.ndol.org/documents/cleveland\\_proclamation.pdf](http://www.ndol.org/documents/cleveland_proclamation.pdf).

<sup>108</sup> This statement also includes attitudes towards public policy. But since the term ‘opportunity’ is clearly linked to economic matters in this declaration, ‘equality of opportunities’ must be seen in the framework of economic policy.

	<p>communities and their country</p> <p>... We believe in reinventing government. We want to eliminate unneeded layers of bureaucracy, and give citizens more choice in public services</p>
<i>foreign policy</i>	<p>... that America must remain energetically engaged in the worldwide struggle for individual liberty, human rights, and prosperity, not retreat from the world</p> <p>... that America must maintain a strong and capable defense, which reflects dramatic changes in the world, but which recognizes that the collapse of communism does not mean the end of danger</p> <p>... that America must lead the march of nations toward democracy and free enterprise, not retreat from the world</p>

*Merging the New Orleans Declaration and the New American Choice Resolution*

displays a clear outline of the new ideas. These two documents together with the critique of 'The Politics of Evasion' constitute the beginning of Third Way politics. The most striking differences compared to the politics of old Democrats in the analysed policy fields are that in economic policy, the redistribution of wealth loses importance whereas the creation of equal opportunities in a growing economy is the new focus.

We think we probably need some redistribution, but you have to temper the market. (...) If you don't grow the economy, then it's hard to redistribute the pie because you are always redistributing a shrinking pie and you have terrible tensions. But we are not so much against redistribution as we are for economic growth. (...) You've got to grow the economy, you've got to expand the pie, you have to expand opportunity and then, hopefully, as you doing it you can also (...) make sure that those falling behind have a chance to get helped.<sup>109</sup>

Regarding public policy, the 'tax and spend government', accused of unfairly taxing the middle-class to spend the money on the poor and unemployed, was to be reformed into an approach including a slimmer administration providing necessities for the people but not the possibilities to live on the expenses of the community. The accentuation of individuality and responsibility for the community indicates this policy shift. In foreign policy, the advocates of the Third Way suggested that the American role

<sup>109</sup> Al From, interview by author, 16<sup>th</sup> December 2003.

must be active to maintain international security and increase economic options. Old Democratic politics were characterised by a reserved and more passive foreign policy.<sup>110</sup>

To sum up, there were some far reaching changes introduced by the New Democrats in important policy fields. The policy direction was distinctly changed. However, the new Third Way did not formulate a comprehensive new politics. There were no clear statements about how one could achieve the new aims. Consequently, the criticism of saying everything and nothing soon arose. In addition to that, it was hard to defend the new policies against the accusation of being neo-conservative as the sense of community was increasingly diluted by the concept of individual responsibility and redistributive elements of social justice were put behind economic growth in the priority list. The only aspect related to redistribution remaining was the plea for a progressive tax system.

What became very clear, also in the remarks by From about the importance of economic growth above other potential aims, was that the general direction of the Third Way was individualist and neo-liberal in the sense defined in Chapter 1. The overall political logic became predominantly economic in nature and other policy stances were adjusted to this logic.

In the end, the new governing philosophy that had been envisaged for about a decade was finally launched at the Cleveland Convention of 1991. The convention character of a European party conference aimed at giving these new ideas more legitimacy. The Big Tent strategy, that obstructed the development of a new governing philosophy, was abandoned. On the other hand, this timing allowed the New Democrats – unlike for instance the SPD with its Berlin Programme – to launch their new guiding

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See Baer, Kenneth S. (2000): *Reinventing Democrats: The Politics of Liberalism from Reagan to Clinton*, Kansas University Press, Kansas, p. 2.



philosophy taking into account the breakdown of the old West – East dichotomy. Hence, the Cleveland Convention in 1991 was at the right time.

The DLC had been aware long before, as their relationship with the Democratic Party establishment showed, that they needed to win the Democratic nomination process to really impose their public philosophy upon the party. Winning the nomination was also the only way to find out whether their overall objective was achievable: the winning of the presidential elections with a New Democrat candidate. As the new agenda had been introduced, the DLC needed to focus on an appropriate candidate who would be personally able to take advantage of the new set of ideas and turn it into electoral success. That man was to be Bill Clinton.

### **3.3 Clinton in Office and the International Third Way Debate**

When the time of Sam Nunn as DLC chairman ended, the DLC looked for a new chairman that would also be suitable as presidential candidate, always bearing the aim of winning the Democratic nomination in mind. Al From offered Bill Clinton, Governor of Arkansas, the national platform as DLC chairman believing he was able to fulfil this function. However, the DLC also needed Clinton in order to play its post Big Tent role. 'From stressed that unlike the days when the DLC had "sidestepped major fights" within the party, it would no longer do that, and he asked that Clinton commit to a "willingness to play hardball"'.<sup>111</sup> Furthermore, Clinton deepened the nationwide influence of the DLC by helping to found nearly two dozen DLC state chapters.<sup>112</sup>

Clinton's biggest responsibility, besides promoting Third Way ideas, was the definition of what exactly should be understood under the content of the DLC declarations. He applied an experienced strategy for the promotion of New Democrat ideas in a series of speeches in 1991 to convince people that there was an urgent need for change. He went back to Jean-Jacques Rousseau when he proclaimed that America needed a new social contract or covenant reshaping the people-government relationship. Additionally, he played with stereotypical attitudes towards politicians as ambassadors of personal or special interests, a feature the DLC always accused the liberal faction of the Democrats for:

To turn America around, we've got to have a new approach (...) with a vision for the future. We need a new covenant, a solemn agreement between the people and their government to provide opportunity for everybody, inspire responsibility throughout our society and restore a sense of community to our

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<sup>111</sup> Baer, Kenneth S. (2000): Reinventing Democrats: The Politics of Liberalism from Reagan to Clinton, Kansas University Press, Kansas, p. 164.

<sup>112</sup> See Hale, Jon F. (1995): The Making of the New Democrats, *Political Science Quarterly*, Vol. 110, No. 2, p. 221.

great nation. A covenant to take government back from the powerful interests and the bureaucracy and give it back to the ordinary people.<sup>113</sup>

Clinton cleverly used the opportunities the DLC provided, including winning support for his campaign amongst elected officials all over the country and recruiting staff for his local campaigns. He entered the nomination race in October 1991 using the Third Way public philosophy developed by the DLC as his political basis. The campaign entry of Clinton also brought the DLC to a turning point: the course of the campaign would show whether it was yet prepared to win a nomination race against the liberal party orthodoxy whose strongest potential candidate was Mario Cuomo, Governor of New York. When Cuomo decided not to run, Clinton found himself on the left of his main competitor, Senator Paul Tsongas of Massachusetts.<sup>114</sup> This constellation made it relatively easy for him to also gain support from the liberal faction. Eventually, Clinton won the nomination race of the Democratic Party.<sup>115</sup>

In the presidential election campaign of 1992, Clinton took advantage of the poor economy and presented the Third Way approach as the route to economic recovery. The publication *Putting People First – How We Can All Change America* accompanying his campaign was based on New Democrat public philosophy. In this manifesto, there were at least some concrete measures at the end of each chapter to be put into practice after a successful election. The national economic strategy, centred on the phrases of 'putting people first' and 'back to work', was to be deployed by the abolition of special interests. It was claimed that the wealthiest Americans should pay their fair share in taxes,

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<sup>113</sup> Clinton, Bill (1991): The New Covenant: Remarks by Arkansas Governor Bill Clinton to Students at Georgetown University, available at <http://www.ndol.org/print.cfm?contentid=2783>.

<sup>114</sup> Another aspect that surely helped Clinton in the nomination was that other 'senior' potential candidates decided not to run in the primaries as they expected Bush to win the elections. These people included Al Gore, Richard Gephardt, and Jesse Jackson.

<sup>115</sup> See Hale, Jon F. (1995): The Making of the New Democrats, *Political Science Quarterly*, Vol. 110, No. 2, p. 227.

American companies moving out of the country should have no tax breaks, deductions for outrageous executive pay should be eliminated, and foreign companies in the US should no longer be able to manipulate tax laws to their advantage.<sup>116</sup>

In the course of the 1992 campaign, Clinton succeeded in taking advantage of the political circumstances and eventually won the presidential elections in 1992. Once in office, Clintonite Third Way politics entered a new phase as enacting the programme was the priority task from that point.

The difference between generating a programme in a party and pursuing it in government is an important field of investigation in this thesis. However, as the British Labour Party and the German SPD are the centres of scrutiny, Clinton's structural difficulties in his presidency will just be briefly considered, as the American political system imposes different constraints on their administrations as is the case in the parliamentary democracies of Britain and Germany.<sup>117</sup>

As regards the Democratic Party, the DLC had the opportunity to impose the New Democrat public philosophy on it after the successful nomination and presidential elections. Paul Herrnson's observations support the DLC viewpoint that winning the nomination and not intervention at party conventions was the prerequisite for programmatic change:

National party conventions have largely lost their significance as decision-making bodies. Contemporary presidential candidates arrive at the convention after having secured their party's nomination, selected a running mate, and provided the platform committee with a blueprint for the party platform. Presidential candidates use the conventions mainly as public vehicles.<sup>118</sup>

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<sup>116</sup> See Clinton, Bill, Al Gore (1992): *Putting People First: How We Can All Change America*, Times Books, New York, p. 8 sqq.

<sup>117</sup> However, the political systems in Britain and Germany also differ considerably in their effects on administrations.

<sup>118</sup> Herrnson, Paul S. (1999): Bill Clinton as a party leader: the First Term, in: Paul S. Herrnson and Dilys M. Hill (eds.): *The Clinton Presidency: The First Term 1992 – 1996*, St. Martin's Press, New York, p. 66.

However this mechanism, as just described, does not mean the candidate, even after a successful election, has an easy time once in power. Clinton started his first term by promoting an economic agenda aimed at creating half a million new jobs, improving America's infrastructure, and reducing the budget deficit.<sup>119</sup> In spite of the Democratic majority in the 103<sup>rd</sup> Congress of the United States, Clinton had severe difficulties in implementing his economic agenda.<sup>120</sup> As Al From summarised, implementing Third Way economic policies was a hard task, because Clinton always needed to find new majorities for his initiatives. The Republicans did not want to support the Democrat Clinton to a great extent and many of his new policies were rejected by congressional Democrats more aligned with the old agenda.<sup>121</sup> Clinton passed major parts of his economic agenda such as the budget and his free trade policy but also failed to push his economic stimulus package through Congress. He was forced to find new coalitions for every measure.

Because of the uncertain majorities in Congress for Clinton's policy agenda, he used his position as *de facto* party leader to use the DNC to raise money and run public relation campaigns for his reforms. The strategic aspect was to put pressure on Congress and make his legislative initiatives harder to reject on the basis that the general public supported the presidential stance. When Ronald Brown became a member of Clinton's administration, David Wilhelm became DNC chairman and organised its public relations function.<sup>122</sup> The extensive and costly campaign designed to bring Democratic Congressmen in line with Clinton's ideas did not have the desired result. Suffering from insufficient funding for campaigning on congressional, state, and local level contributed

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<sup>119</sup> Some of these policies were emulated by New Labour and will be dealt with in Chapter 6.

<sup>120</sup> See Bailey, Cristopher J. (1999): *Clintonomics*, in: Paul S. Herrnson and Dilys M.Hill (eds.): *The Clinton Presidency: The First Term 1992 – 1996*, St. Martin's Press, New York, pp. 85ff.

<sup>121</sup> See Al From, interview by author, 16<sup>th</sup> December 2003.

<sup>122</sup> Bailey, Cristopher J. (1999): *Clintonomics*, in: Paul S. Herrnson and Dilys M.Hill (eds.): *The Clinton Presidency: The First Term 1992 – 1996*, St. Martin's Press, New York, p. 71.

to the defeat in the midterm elections of 1994. Subsequently, even more Democratic members of Congress turned against Clinton, accusing him of spending money for the wrong purposes.<sup>123</sup>

He also found it hard winning majorities for his policies as according to most commentators he did not follow pure Third Way politics and in some policy areas drifted back to the left once in office. The result of Clinton's difficult first two years was that the Republicans won the mid-term elections of 1994. Newt Gingrich became the new majority leader in the House urging Clinton to achieve his policies against a republican dominated 104<sup>th</sup> Congress.<sup>124</sup>

This example shows that the loose structure of American parties can become an obstacle for programmatic renewal. Despite Clinton having secured nominal power in the national party, it was still a very awkward assignment to implement his policies. The fact that there is no distinct party philosophy in the US Democratic party – due to the party's structure - makes it also very hard to set one. Even being in power in the White House did not provide the means to completely implement the agenda Clinton won the presidential elections with. More than of a philosophy, the Democratic Party consists of committees that run elections and its members behave more as their own agents as on behalf of party interests.<sup>125</sup>

Besides having difficulties in implementing the Third Way in the United States, the winning of the White House lifted the international relevance of the Third Way concept to a qualitatively new level. From this point on, interested spectators from other parties, especially from European parties, were assured that the DLC's ideology of the Third Way was capable of electoral success on the highest level. This fact made it

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<sup>123</sup> Ibid.

<sup>124</sup> See Ibid, p.101.

<sup>125</sup> See Al From, interview by author, 16<sup>th</sup> December 2003.

certainly more attractive to parties that themselves were still struggling for political direction. Before Clinton's victory, there were contacts and some degree of exchange between the Democrats and other parties, most notably the British Labour Party. But Clinton moving into the White House was a watershed in the development of the Third Way since an international discussion started reaching its climax in a global debate.

As mentioned before, the scope of this chapter does not allow for presenting a detailed account of Bill Clinton's two presidencies. However, the New Democrats' role in the international Third Way debate and the Democrat view on decisive events after the electoral victories of Blair and Schröder and their own defeat in the presidential elections of 2000 are crucially important for the developments of the British Labour Party and the SPD looked at in the following chapters. Therefore, these occurrences will be addressed in the following paragraphs.

The Democratic Leadership Council released another Third Way key document in 1996. In *The New Progressive Declaration*, New Democrats more clearly defined what kind of economy their renewed politics were adjusted to. So far, they had been proposing that rapidly changing economic circumstances needed political adjustment. But in this new defining pamphlet, it was the first official occurrence that the Third Way was a political philosophy for the 'Information Age'. This determination as an 'Information Age' political philosophy was accompanied by a narrowing of the New Democrat conception of their core principles of 'opportunity' and 'community'. It was clearly stated that the New Democrat definition of 'opportunity' was to enable American citizens to play by the rules of the markets. By investing in education and skills, the state ought to provide the means that everyone can make his fortunes in a given dynamic



economy.<sup>126</sup> Even more striking and important was the definition of ‘community’ included in ‘The New Progressive Declaration’. Yet the very term ‘community’ from earlier Third Way definitions was replaced by the concept of self-governance that ‘requires public institutions that empower (...) citizens to act for themselves by decentralising power, expanding individual choice, and injecting competition into the delivery of public goods and services.’<sup>127</sup>

As a result, the ‘New Progressive Declaration’ was important in two ways: first, it further defined the economic rationale of the Third Way and its relation to key societal aspects such as ‘community’. And it secondly helped to bring the brand name ‘Progressivism’, which would be important for the later debate, back to the centre of attention.<sup>128</sup>

Although international interest in the Third Way increased after Clinton’s victory, it was not until Tony Blair and Gerhard Schröder assumed office that the international debate about the Third Way really accelerated. From the American point of view, the New Democrats were the intellectual and power source of what they saw as a successful worldwide spread of the Third Way. As Al From remarked on the ‘Third Annual Conversation of the Democratic Leadership Council’ in 1999:

Bill Clinton is the leader of the New Democrat movement in this country and the single person most responsible for the modernization of progressive politics all over the world. That is his legacy to our country – and to the world. (...) Where are we today? Bill Clinton and the New Democrats lead in the United States. Tony Blair and New Labour in Great Britain. And Gerhard Schröder and the New Middle in Germany. The common thread to the success of all of three of those

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<sup>126</sup> See DLC/PPI (1996): *The New Progressive Agenda: A Political Philosophy for the Information Age*, available at <http://www.ndol.org/print.cfm?contentid=839>.

<sup>127</sup> Ibid.

<sup>128</sup> Especially in the history of the British Labour Party, the ‘Progressive Alliance’ was crucially important for its relationship with liberalism – a relationship to be explored in the next chapter.



parties (...) has been their development and embrace of what we call the third way political philosophy.<sup>129</sup>

The belief that the ideological foundation of the American New Democrats brought about the electoral successes in first Britain and then in Germany – a belief that will be tested in the next chapters – opened up a window for a new strategic objective of the Third Way debate. The belief that kindred spirits were governing in London and Berlin led to a relocation of the international debate about progressive politics. What started and until then had taken place in the framework of certain activists and party reformers discussing new ideas for their respective parties to lead them to electoral success developed now into an intergovernmental dialogue between national governments.

This strategic shift was logical in the sense that by its founding idea, the Third Way would be measured by its electoral success. As in the late 1990s electoral success, not only in the US, was realised, it was easy and desirable to take advantage of the new governments with allegedly some degree of common basis and integrate them into a set of intergovernmental contacts led by the mother land of the Third Way – the United States of America. This shift was the beginning of the 'Leader Summits' or the 'Progressive Governance Summits'.

The first widely noticed meeting of leaders took place in Washington in 1999 after the conclusion of a NATO summit. In this instance, President Clinton, British Prime Minister Tony Blair, German Chancellor Schröder, Italian Prime Minister Massimo D'Alema, and Holland's Prime Minister Wim Kok came together to discuss the Third Way. Even then it became obvious, that there was more variety in the international

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From, Al (1999): *The Third Way: Reshaping Politics throughout the World*, speech given at the DLC National Conversation, Baltimore, Maryland, available at <http://www.ndol.org/print.cfm?contentid=647>.

Third Way than just copying the New Democrat ideas, or as Wim Kok described his notion: 'Sometimes I have the impression that the Third Way is a very broad Third Avenue. But anyhow, it is symbolic for renewal.'<sup>130</sup> Also the statements of Tony Blair and Gerhard Schröder gave evidence for not quite the same understanding of the Third Way. Whereas Blair basically adopted the New Democrat creed and said 'I believe what we are really, really about is the politics of community, opportunity, responsibility',<sup>131</sup> Gerhard Schröder disagreed with the 'community' understanding outlined by the American Third Way:

(...) that is what we mean when we speak about community, not only to be interested in your very own person and your very own interests, but to work for the community and its interests – and if we don't do that, then all our political initiatives will be useless.<sup>132</sup>

These statements of Blair and Schröder at the first big leaders summit quite frankly portrayed differences between Labour and the SPD. On the one hand, the British Labour Party, especially the group of New Labour architects, was committed to discarding the burden of their ideological inheritance and walk down the path the New Democrats had shown.<sup>133</sup> On the other hand, the SPD and even Gerhard Schröder were not prepared to go as far as Labour would. This was repeatedly shown at all leader summits as Will Marshall recalls:

The truth is that Schröder, we were intrigued by him. He talked about the *Neue Mitte*, he seemed to be trying to invoke this reformist tendency amongst centre-left leaders in the US and Britain, but we were not quite sure what (...) the substance of this was. (...) Schröder was at all of the Third Way meetings, the big heads of state meetings, and he always came, but we were always looking for signs of radical reformism and were rarely finding them.<sup>134</sup>

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<sup>130</sup> DLC (1999): Turning ideas into action, *The New Democrat*, May 1, available at <http://www.ndol.org/print.cfm?contentid=1247>.

<sup>131</sup> Ibid.

<sup>132</sup> Ibid.

<sup>133</sup> See Will Marshall, interview by author, 10<sup>th</sup> February 2004.

<sup>134</sup> Will Marshall, interview by author, 10<sup>th</sup> February 2004.

The new high level meetings did not replace the gatherings on lower level but obviously attracted the most attention and took much power of shaping the international Third Way away from lower levels. However, also the meetings on think tank or advisors level left New Democrats with the impression that Labour embraced a much more radical reformism than the SPD.<sup>135</sup>

The 'Progressive Governance for the 21<sup>st</sup> Century' summit in Berlin in June 2000 was the last the New Democrats attended in presidential power. The *Berlin Communiqué* adopted at this meeting brought little new as regards content but stressed again the aspiration to form an international community of shared values.<sup>136</sup> However, after Al Gore – who did not run a distinct Third Way campaign to separate himself from Clinton – lost the presidential election against George W. Bush in late 2000, the American dominance in the debate ended abruptly. As the ideology had always been seen as a governing philosophy, Third Way governments decided its direction. Since 2000, the place of debate about Third Way 'progressive politics' has increasingly become European. This also directly influenced the content of debate.<sup>137</sup> The founding fathers of the Third Way, the American New Democrats, had more and more lost their grip on the international discourse.<sup>138</sup> Therefore, the more recent developments of the Third Way debate will be dealt with in the chapters about the Labour Party and the SPD as well as the International Third Way.

In conclusion, this part of the chapter analysed a decade or so of Third Way politics. It started when Bill Clinton entered the main stage and secured his election as 42<sup>nd</sup> president of the United States. The description of his struggle to implement his

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<sup>135</sup> See Ibid.

<sup>136</sup> See 'Berlin Communiqué', available at <http://www.progressive-governance.net/aboutus/index.aspx?id=594>.

<sup>137</sup> See Will Marshall, interview by author, 10<sup>th</sup> February 2004.

<sup>138</sup> See Al From, interview by author, 16<sup>th</sup> December 2003.

agenda once in power was not decisive for the international debate about progressive Third Way politics but for some parts of the analyses of the British Labour Party and the German SPD – especially for the necessary distinction between Partisan and Governmental Third Way. That is why this aspect was mentioned here.

With the most prominent New Democrat advocate residing in the White House, the international attraction of the Third Way was lifted to a qualitatively higher level. But it took until Tony Blair and Gerhard Schröder managed to assume office from the long-lasting conservative governments in Britain and Germany for the international debate to really accelerate. From that point on, the progressive discourse was predominately conducted on an intergovernmental level. Electoral success in other countries, most notably in Europe, also resulted in different interpretations of the Third Way becoming evident. Progressive politics became a broad avenue rather than a narrow street.

The last decisive watershed of Third Way development was when the Democrats lost the presidential elections of 2000. By the nature of Third Way politics, this meant that the main discussions moved to Europe where the most prominent progressives were in power.

The international debate between the New Democrats and social democratic parties leads to the question: what relationship did (New) Democrats have with social democracy? The answer to this question is crucially important for the legitimacy of ideas imported from the US Democratic Party.



### 3.4 The Democrats and Social Democracy

The construction of the American Democratic Party does not only show clear organisational differences compared to the British Labour Party and the SPD, its historic development differs from the experiences of European social democratic parties too. On account of this, the difference between social democracy and the Democratic Party in the United States needs to be clarified by analysing history and experience of the Democratic Party in relation to socialism.

In order to understand the role of socialism in the Democratic Party, one needs to take the general history of socialism in the United States into account. Socialist history has evolved in a different manner than in Europe: it has hardly ever happened. The question ‘why is there no socialism in the United States?’ was first brought up by Werner Sombart in 1906.<sup>139</sup> From then until the last major work on this issue – *It didn’t happen here, why socialism failed in the United States* by Seymour Martin Lipset and Gary Marks – there has been a vast amount of analysis and explanations as to why there has been such a different emergence of socialism on both sides of the Atlantic.<sup>140</sup>

Socialist thought was brought to America by European immigrants, especially from German background.

Artisans and intellectuals from Germany had more influence than any other immigrant group in the establishment and early growth of the American socialist movement. The theoretical literature on socialism, from the *Communist Manifesto* of 1848 to the outbreak of World War I, was largely written in German, and the German social democratic party, founded in 1875 [sic!]<sup>141</sup>, was

<sup>139</sup> See Beilharz, Peter (2001): *It didn’t happen here: Why socialism failed in the United States* [Review], *Political Quarterly*, Vol. 72, No. 2, p. 259.

<sup>140</sup> Lipset puts many structurally different explanations forward. However in this thesis, only the arguments relevant to the analysis of socialist influence on the Democratic Party will be concerned. For a full account of reasons see Lipset, Seymour Martin (1996): *American Exceptionalism: A Double Edged Sword*, Norton, New York, pp. 84 – 86.

<sup>141</sup> The founding of Ferdiand Lasalle’s *Allgemeiner deutscher Arbeiterverein* in 1863 is commonly seen as the birth of the German social democratic party. In 1875, on the *Gothaer Kongress*, there was the merger with the *Sozialdemokratischer Arbeiterverein* founded by August Bebel and Karl

by far the largest and most influential socialist party in Europe. This gave German radicals a unique position of authority in the American socialist movement (...).<sup>142</sup>

The literature on socialism also dealt with one of the fundamental reasons why the socialist movements in the United States did not have the same impact as their European counterparts: it is the term 'class'. The first analysis of class in the United States was already conducted by Karl Marx and Friedrich Engels.<sup>143</sup> The absence of determining and defining historical experiences like the time of feudalism in Europe – and therefore also the absence of institutional and traditional constraints put onto the lower class – did avoid a stronger cohesion within the socialist movement. The United States, at that time in the 19<sup>th</sup> century, represented the most modern society and the most democratic country.<sup>144</sup> Additionally, American society consisted of immigrants from very different backgrounds. Consequently, dissimilar races, religions as well as ethnic differences, supported separatism rather than unity.<sup>145</sup> The early American socialist groups remained a separatist social movement that were strongest in homogenous areas with a European population background.

The labour movement, on the European continent a movement with close ties to socialism, was a rather non political movement in America. Apart from a small number of unions, for instance the 'United Mine Workers of America', most trade unions concentrated on protecting their economic segment from competition. In effect, the American Federation of Labor (AFL) did not provide a core constituency for labour and

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Liebkecht in 1869. From 1875 on, the party was called *Sozialistische Arbeiterpartei Deutschlands*.

<sup>142</sup> Laslett, John H. M. (1970): Labor and the Left: A Study of Socialist and Radical Influences in the American Labor Movement, Basic Books, New York, p. 9.

<sup>143</sup> See Lipset, Seymour Martin (1996): American Exceptionalism: A Double Edged Sword, Norton, New York, p. 29.

<sup>144</sup> See Ibid p.79.

<sup>145</sup> See Beilharz, Peter (2001): "It didn't happen here: Why socialism failed in the United States [Review]", *Political Quarterly*, vol. 72, no. 2, p. 259.

socialist parties in the United States; a further major difference to the European occurrence.<sup>146</sup>

The Democratic Party<sup>147</sup> was a political outcome of the exceptionalism of American society, also called 'Americanism'. Born out of revolution, this ideology includes a distinct understanding of a good society.<sup>148</sup> As Lipset examined, five words characterise the properties of 'Americanism': 'liberty, egalitarianism, individualism, populism and laissez-faire'.<sup>149</sup> As a result, the American society puts a much stronger emphasis on equal individuals rather than on community. There has been no clearly developed class consciousness because an egalitarian understanding of people prevails; in effect the American society has been dominated by individualistic middle-class values. This is a value basis that also defines nationality. American nationality is determined by ideology, whereas nationality in European nations derives from a common history. Whether you are a communist or an aristocrat, you share the same history of being part of a national society. Because of the lack of this common history, American nationality has been defined as acceptance of the special set of values of 'Americanism'.<sup>150</sup>

For the analysis in this thesis, the most important fact is that Americans have a long history of individualism going back to the founding days of their nation. Strong individualism and the absence of class consciousness obstructed the formation of relevant socialist movements and parties in the late 18<sup>th</sup> and 19<sup>th</sup> centuries. The Democratic Party is a political derivate of the tradition of individualism.

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<sup>146</sup> See Biggs, Michael (2002): *A Century of American Exceptionalism: A review of Martin Lipset and Gary Marks, It didn't happen here: Why Socialism Failed in the United States, Thesis Eleven*, Vol. 22, No. 68, p. 115.

<sup>147</sup> As well as the Republican Party since both see their origins in Thomas Jefferson's Democratic – Republican Party.

<sup>148</sup> See Lipset, Seymour Martin (1996): *American Exceptionalism: A Double Edged Sword*, Norton, New York, p. 31.

<sup>149</sup> Ibid.

<sup>150</sup> Ibid. pp. 31-32.

The repercussions of economic crises however, that tend to mobilise the lower class as they tend to suffer the most, were also detectable in the times of the Depression in the United States in the 1930s. The American Socialist Party, by then under the leadership of Norman Thomas, did not manage to take advantage of the economic situation for two reasons. First, the heterogeneity and factionalism within the Socialist Party narrowed their scope of action and second, the Democratic Party, led by president Franklin Delano Roosevelt and his New Deal programme, was very appealing for many leftists.<sup>151</sup>

The problem that Roosevelt posed for the Socialists was simple. His economic and trade union policies had great appeal to the poor, to the unemployed, to African – Americans, and to trade unionists and their leaders. These programs, along with his rhetoric, which turned increasingly populist and anti-business, attracted voters who had been on the left of the Democrats. Trade Unionists and former Socialists were offered significant roles in the administration and the Democratic Party.<sup>152</sup>

What are the fundamental conclusions from the Great Depression experience and its consequences for left politics and the Democratic Party? First, the socialist movement failed to change the political system or even to develop as a party of national significance. This was partly due to the Democratic Party embracing a left rhetoric and political agenda that drew off a major amount of support from the Socialist Party. Second, the Democratic Party experienced a kind of ‘social democratic tinge’ for the first time in its history, as Roosevelt’s New Deal comprehended a kind of social democratic agenda.<sup>153</sup>

In the long run however, this social democratic tinge was limited to the time of economic decline and faded after Word War II. Due to a long period of economic

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<sup>151</sup> See Lipset, Seymour Martin and Gary Marks (2000): *It didn’t happen here: Why Socialism Failed in the United States*, Norton, New York, p. 206.

<sup>152</sup> Ibid., p. 209.

<sup>153</sup> See Lipset, Seymour Martin (1996): *American Exceptionalism: A Double Edged Sword*, Norton, New York, p. 37.



prosperity without major downswings and the eminent Democratic constituency amongst the southern elites that opposed further labour legislation and social democratic influence, the value basis of 'Americanism' was reinstalled in the Democratic Party.<sup>154</sup> As a result, much of the left was either splintered into small groups or absorbed by the Democrats during the New Deal period. The move back to 'Americanism' after World War II marginalised left influence. The Democratic Party has not experienced a major left-wing input since. The fact that the United States has the least amount of social security among the most industrialised countries, even after five Democratic presidents since Roosevelt, is a major evidence for the prevailing value of 'individualism' in American politics; also within the Democrats.<sup>155</sup>

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<sup>154</sup> See Biggs, Michael (2002): A Century of American Exceptionalism: A review of Martin Lipset and Gary Marks, *It didn't happen here: Why Socialism Failed in the United States*, Thesis Eleven, Vol. 22, No. 68, p. 119.

<sup>155</sup> See Lipset, Seymour Martin (1996): American Exceptionalism: A Double Edged Sword, Norton, New York, pp. 71 sqq.

## **Conclusion**

The last part of analysis showed that the Democratic Party is not a social democratic party and hence its structure and programmatic development must be seen in a different light than those of the British Labour Party and the German SPD. The tradition of 'Americanism' in the Democratic Party stresses the individual rather than community. 'New Democrats' stand in this history too. The statement of belief that 'government should respect individual liberty and stay out of private lives and personal decisions'<sup>156</sup> as well as the perception that liberty of conscience, individual responsibility, and tolerance of difference are the cultural values in which most Americans believe, give evidence for this notion.<sup>157</sup> So, Clinton's reference to standing in the tradition of the Democratic Party is in that sense true.

In economic matters, New Democrats frankly emphasised that making the economy grow by providing a good framework for private business to flourish was more important to them than redistribution of wealth within the society. This implies the acceptance of inequalities. So, the approach of 'equality of opportunities', the approach to equip American citizens with the tools they need to do well in the economy, stressed their liberal and individual tradition. The 'New Democrat' public philosophy brought back to the centre of political attention what was believed to be the values and concerns of the American middle-class.<sup>158</sup>

The rise of the New Democrats began with the criticism that the dominating liberal faction in the party left behind just these concerns of the middle-class and in fact

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<sup>156</sup> DLC (1990): The New Orleans Declaration: Statement Endorsed at the Fourth Annual DLC Conference, available at [http://www.ndol.org/ndol\\_ci.cfm?contentid=878&kaid=128&subid=174](http://www.ndol.org/ndol_ci.cfm?contentid=878&kaid=128&subid=174).  
<sup>157</sup> See Ibid.

<sup>158</sup> The New Democrats use the term 'middle-class' despite the fact, as explored in this chapter, that there is no history of 'classes' in the US. The term 'average Americans' in contrast to Americans belonging to minority or special interest groups would be more appropriate.

functioned as the political agents of special interests. It also became clear, that the driving force behind the reform of ideas was the conviction that the Democratic Party was unable to win the presidency by representing these special interests. There was hardly any mention that these special interest policies were perceived wrong as regards content. They were just viewed as being inappropriate for winning back the White House. The driving force behind the philosophy was the wish of winning presidential elections. This clearly put limits on the development of new ideas since they always were tested in relation to the electoral aim, meaning that they were tested whether they produce a positive feedback. Al From stated that the goal of the DLC was to come up with ideas 'that [first] will help elect a Democratic president and [second] will work for the country'<sup>159</sup>. So, a revival of core ideas of 'Americanism', by Lipset also regarded as nationality defining, seemed to be the best recipe for electoral recovery on the presidential level.

The renewal strategy was pursued by means of an extra-party organisation that developed a national network of elected officials and thus also provided the communication channels for a successful campaign. The Big Tent Strategy, which characterised the first phase of the DLC, was successful and unsuccessful at the same time. It provided the time necessary for the DLC to grow strong enough to take on the powerful party orthodoxy, but at the same time it obstructed the development of a distinct counter-philosophy as the DLC was forced to take moderate political stances. In the end, the winning of time was the more important point as the DLC succeeded with their Third Way ideology in the Democratic nomination and the 1992 presidential elections.

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See Al From, interview by author, 16<sup>th</sup> December 2003.

In this whole rethinking process, Neil Kinnock's Policy Review and Labour Party Conference politics were an influential input for the Democrats. These mechanisms inspired the Democrat's methods to deal with their unbeloved ideological inheritance and the means by which policies developed by a small group could be enforced.

The defeat of Michael Dukakis in 1988 marked a turning point in DLC history: the Big Tent Strategy was abolished and after the failure to assume the party chairmanship, a far more offensive strategy was applied to win the 1992 nomination process. After winning the White House, there were obvious limits to implementing Third Way policies. The overall party structure and certain aspects of the American political system made enacting the agenda a hard task.

However, the Clinton victory proved that the Third Way was able to fulfil its fundamental function – electoral success. This made the ideas more attractive to other parties, especially from the centre-left spectrum, looking for a new direction in altered political circumstances. The international spreading of the Third Way was brought to a qualitatively new level after Clinton moved into the White House.

In 1996 with the release of the *New Progressive Declaration*, the New Democrats stressed even more strongly their liberal tradition by emphasising economic neo-liberalism and the role of self-governance in their understanding of 'community'. It was also highlighted that decentralisation of power, individual choice, and more economic competition were New Democrat views in the delivery of public goods.

After New Labour's landslide in 1997 and the electoral victory of the SPD in Germany in 1998 – that were seen as largely based on New Democrat ideas – the international debate accelerated remarkably and the Third Way discourse developed to become an intergovernmental matter. Under the name of 'the leader summits' or

‘progressive governance conferences’, these contacts were institutionalised. In turn, the scope of the Third Way widened and it became more and more a matter of interpretation and recognition of who was talking about the Third Way in order to understand what policies were actually meant. In the wake of Al Gore’s defeat in the presidential elections of 2000, the ongoing debate about progressive politics and the Third Way increasingly shifted to Europe as the most prominent Third Way practitioners and the most active discussions since then have taken place in Europe.

For the following analysis, it is crucial to express again the huge difference as regards structure and ideological development between the Democratic Party in the United States on the one hand and the British Labour Party and the German SPD on the other. The origin and development of the New Democrat philosophy has nothing to do with the roots of social democracy in Europe.<sup>160</sup> Therefore, the adoption of ideas and the way these ideas were taken and integrated into social democracy need to be scrutinised in great detail. By taking the basis provided by the American New Democrats into account, the fundamental question of legitimacy arises. What exactly of the American philosophy was adopted by New Labour and the SPD and how? Can these individualistic, liberal ideas be legitimate social democratic politics?

There is a decent degree of difference between Labour and the SPD in their respective party histories. These differences and the dissimilar degrees of influence the Democratic Third Way had on British and German social democracy need to be addressed. Furthermore, the mutual contacts between Labour and the SPD were important for the renewal of their social democratic agendas. The next chapter will deal

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<sup>160</sup> The roots of the British Labour Party and the German SPD will be examined in the following chapters.

with the transformation of the British Labour Party into New Labour taking its political and programmatic tradition into consideration.

## Chapter 4

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# The Third Way Impact on the Labour Party in Historical Perspective

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### **Introduction**

A serious scrutiny of the Third Way impact onto New Labour cannot be achieved solely by looking at the Labour Party under Tony Blair. Moreover, certain aspects of the party's development since 1900 are essential in order to obtain a full understanding of New Labour. Bearing the findings of the last chapter in mind, the following questions need to be addressed: what is Labour's historical relationship to liberalism? What has its relationship to the US and the US Democratic Party been like? What characterised previous renewal phases such as Revisionism and Labour's Policy Review?

It is impossible to present a full or detailed history of the British Labour Party here and, indeed, this is not the aim of the chapter. Moreover, specific circumstances and developments that are relevant for Labour's political position and renewal within the party are briefly explained. The analysis will start with the situation before the founding of the Labour Party in 1900 and go on with its development until after the MacDonald governments. After this, Labour's revisionism will be briefly scrutinised. The historical part of this chapter will be concluded by an analysis of Labour in the 1980s and early 1990s, when the party split and Neil Kinnock initiated the 'Policy Review' and moved Labour back towards the political centre.

Furthermore, the focus of the exploration undertaken here limits the number of policy fields examined. As this thesis is mainly concerned with social and economic policy reform, other important policy fields such as foreign policy will be given minor priority.

The focus of this chapter also raises the need to distinguish the terms 'liberalism', 'social democracy' and 'socialism', a task that is not easy owing to different



understandings of the terms in different areas at different times. As the distinction between these concepts is too complex to grasp here in a few words, it is, moreover, one of the aims of this chapter to analytically develop and portray this relationship. This approach is more adequate than starting the investigation with static definitions that risk omitting relevant aspects of the terms in favour of general abstraction.

Only the analysis of these crucial circumstances of Labour history can provide the scope to scrutinise the Third Way impact on the Labour Party under Blair comprehensively. Regarding the difficult distinction of key concepts such as liberalism and social democracy, it is a necessity to merge historical and political analysis as explained in detail in Chapter 2 dealing with theoretical approaches to Labour Party analysis.

On this basis, the second part of this chapter deals with the Labour Party from 1994 when Tony Blair succeeded John Smith as party leader. First, the direct influence of the New Democrats on the development of New Labour is explored before examining Tony Blair's personal impact on the Labour Party. Following this, New Labour's Third Way value basis will be sketched out and its relationship to the Liberal Democrats will be addressed.

In concluding, the examination of the New Democrats and New Labour allows the extraction of core characteristics of the Third Way. The summary of these characteristics concludes this chapter and provides an important starting point for the scrutiny of the SPD experience.

#### **4.1 British Socialism, New Liberalism and the Founding of the Labour Party**

One of the best known experts of the European left, Donald Sassoon, pointed to a very important aspect of the date of origin of many socialist parties in Europe. Building upon the success of the German SPD as the oldest socialist party, most socialist parties in Western Europe were founded between 1890 and 1900. Their success varied widely. But interesting in this circumstance is the pattern of emergences:

Neither the date of creation of the socialist party, nor its electoral strength correlates with the level of industrialization or the size of the working-class electorate. In fact, the statistical correlation is negative. Italy's socialist party, established in 1892, had conquered one-fifth of the electorate by 1904, while Great Britain, with a far stronger industrial base, a more developed and ancient trade union movement, had no significant socialist party until 1900 (or even 1918) (...).<sup>161</sup>

Given the astonishing pattern that the introduction and success of socialist parties was more due to political factors than to social or economic ones leaves the question why in Britain this political force was particularly weak and produced, in electoral terms, a rather unsuccessful Labour Party at the beginning of the 20<sup>th</sup> century.

At least an important part of the answer lies in a peculiarity of the British political system. As regards party politics, British democracy produced an overall structure of a two-party system, divided into the Conservative Party and a leading non-conservative opposition. Only after World War I, did Labour become the leading anti-conservative party. Before that, and thus also in the origin years of the Labour Party, the British Liberals were the main opposition to Conservatism.<sup>162</sup> The reason for the

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<sup>161</sup> See Sassoon, Donald (1997): One Hundred Years of Socialism: The West European Left in the Twentieth Century, Fontana Press, London, p.9.

<sup>162</sup> See Marquand, David (1999): The Progressive Dilemma: From Lloyd George to Blair, Phoenix, London, pp. 5 sqq.

survival of British Liberalism as main opposition in the years of rising socialism in Europe lies in its very own nature and adaptation.

Starting around 1890, the time when many socialist parties in Europe were founded, there was a development in the British Liberal Party towards what became known as 'New Liberalism'. The new aspect of this liberalism was the acknowledgement of the threat that class conflict posed to social stability. Consequently, the aim of New Liberalism was to abolish grievances which could potentially increase class conflicts and support revolutionary tendencies.<sup>163</sup> Trying to realise this aim, what occurred in the development of liberalism was the emergence of a complex and interwoven relationship between liberalism and socialism culminating in Sir William Harcourt's – himself a liberal - often repeated phrase 'we are all socialists now'.<sup>164</sup> But before sketching out the key programmatic features of 'New Liberalism', it is necessary to clarify what socialism in this context meant.

Starting to work on the difficult definitions and relationships between liberalism, socialism, and other associated terms means, as Tony Wright described, entering a 'linguistic minefield'.<sup>165</sup> The term 'socialism' first appeared in England in the 1820s. By that time, it was characterised by ideas for social reconstruction. This 'socialism' was opposed by Marx's 'communism' embracing more revolutionary, egalitarian, and proletarian aspects. However, in the course of the 19<sup>th</sup> century, 'socialism' was established as the terminology and Marxism became the set of ideas

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<sup>163</sup> See Bernstein, George L. (1986): *Liberalism and Liberal Politics in Edwardian England*, Allen & Unwin, London, p.6.

<sup>164</sup> See Freedon, Michael (1978): *The New Liberalism: An ideology of social reform*, Clarendon Press, Oxford, p.25.

<sup>165</sup> See Wright, Tony (1996): *Socialisms old and new*, Routledge, London, p.3.

behind it.<sup>166</sup> Nevertheless, this was merely a general understanding as 'socialism' from its beginning has developed in many directions and Britain was a special case:

The leading candidate for the position of 'most anomalous Left' in Europe was and has perhaps remained British. Prior to 1914, socialism itself did not achieve much popularity among the working class and it took longer to become accepted as the ideology of the labour movement than anywhere else in Europe. (...) H.M. Hyndman, a stockbroker, started the Democratic Federation in 1881 on 'Marxist' lines. Hyndman himself was a jingoist, an anti-Semite and an imperialist. This did not prevent his group from becoming Britain's first socialist party in 1884 when it changed its name to the Social Democratic Federation (SDF).<sup>167</sup>

Additionally to the SDF, there were the Independent Labour Party (ILP), the Fabian Society, and the trade unions that eventually, in a joint effort, established the Labour Party in 1900. However, none of these groups were revolutionaries. Hence one question remains: why did revolutionary ideas play such an unimportant role in early British socialism? The answer lies in the character of the British working-class that was deeply rooted in reformism, or as David Coates put it:

Late nineteenth-century socialist revolutionaries (...) faced a working class whose leading sections had already (...) laid down what were to remain its characteristic institutions: not the revolutionary party but the 'trade unions, trade councils, T.U.C., co-ops, and the rest. And they faced a class which, in the process, had generated institutions and leaders who, in periods of prosperity at least, could deliver those marginal but significant improvements in wages and conditions on which support for social reform politics and class collaboration in industry could and did flourish. Moreover, (...) these very institutions and leaders (...) gathered an increasing interest in rejecting and opposing political movements that might, by their radicalism, jeopardise existing gains.'<sup>168</sup>

Thus in conclusion, of the many interpretations and currents socialism has comprised in its history, early socialism in Britain was maybe the strangest of all socialisms in Europe at this time. From its beginning, it was mainly promoted by

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<sup>166</sup> See *ibid.*, pp. 2sqq.

<sup>167</sup> Sassoon, Donald (1997): *One Hundred Years of Socialism: The West European Left in the Twentieth Century*, Fontana Press, London, p. 15.

<sup>168</sup> Coates, David (1975): *Labour and the struggle for socialism*, Cambridge University Press, Cambridge, p. 7.

middle-class intellectuals, such as the ones assembled in the Fabian Society, and never had a distinct revolutionary character. Therefore, the sort of socialism that emerged in Britain was 'tamed' and detached from revolutionary ideas. This is important to bear in mind when dealing with the merger of socialism and liberalism in the concept of New Liberalism.

On the simplest level, socialism in the time of emerging 'New Liberalism' at the end of the 19<sup>th</sup> century can be portrayed as considering the 'social question'. So, dedication to social reform became a separator between socialists and non-socialists. Intellectually, New Liberals perceived socialism in a moral and humanitarian way, rather than in economic terms. Consequently, this led to the rejection of two types of socialism by L.T. Hobhouse, one of the leading New Liberal thinkers. Economic and political socialism were considered unacceptable as the former relied on only a single factor, the economy, in its system construction and the latter was elitist and bureaucratic with the tendency to impose principles of living on people. As a result, liberal socialism included a more intellectual approach to socialism, based on humanitarian ideals rather than on economic assumptions.<sup>169</sup>

Embracing socialism as a part of 'New Liberalism' brought about the need to address the relationship between concepts such as individualism and collectivism. Collectivism was widely understood as socialism without its negative connotation caused by its many meanings and individualism, as a liberal concept, did not mean *laissez-faire*. In fact, at the end of the 19<sup>th</sup> century, *laissez-faire* was much more likely

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<sup>169</sup> See Freedon, Michael (1978): *The New Liberalism: An ideology of social reform*, Clarendon Press, Oxford, pp. 28 sqq.

to be found within Conservative ranks.<sup>170</sup> As a result, there was no necessary contradiction between these two concepts as Michael Freeden expressed:

The liberalism which John Stuart Mill bequeathed to his intellectual successors was based on the **free development of individuality** [emphasis by author], on a specific configuration of these three concepts in a mutually sustaining framework. It focused on the centrality of **responsible** [emphasis by author] human choice in a setting of personal growth and which acknowledged the constraints of social life as well as the dual benefits to society and the individual of nourishing differences. Some of the features of social democracy emanated from the logic of liberalism itself: an increasing sense of sociability, the rational desirability of social harmony, and the promise of continuously improving control over the conditions of human development – a possibility attached to a hopeful view of social evolution and of the future.<sup>171</sup>

Consequently, the creation of 'New Liberalism' involved the explicit addressing of the 'social question' within the intellectual framework of liberalism. Given the British variant of socialism, this included merging socialist approaches with liberalism.

However, as far as the founding of the Labour Party is concerned, the question remains why there was the desire for a new party rather than taking advantage of the already existing structures of a socially sensitive Liberal Party. The answer to this crucial question lies astonishingly in the working-class itself and its anti-revolutionist democratic system acceptance. Liberal associations dominated by middle class leaders were unlikely to accept working-class people as candidates for political representation. This was due to the fact that first they would have to fund these candidates<sup>172</sup> and second, once in the political system, they might further labour related issues that may not be in the professional and business men's interest.<sup>173</sup> The introduction of the ILP in 1893 was guided by the aim of sending working men into Parliament. Another driving

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<sup>170</sup> See *ibid.*, p.33.

<sup>171</sup> Freeden, Michael (1999): True Blood or False Genealogy: New Labour and British Social Democratic Thought, *The Political Quarterly*, special edition on 'The New Social Democracy', p. 153.

<sup>172</sup> Public funding for MPs was not introduced by this time.

<sup>173</sup> See Pelling, Henry (1985): *A Short History of the Labour Party*, MacMillan, London, p. 3.

force for the same cause was the trade unions that also desired to obtain direct political representation. The fear of losing labour standards in the next depression, some hostile legislation<sup>174</sup>, and the rise of employer associations were decisive factors for the Trade Union Congress (TUC) to work towards direct representation in the political decision-making bodies.<sup>175</sup> Eventually, the Labour Party was founded as the Labour Representation Committee (LRC) in early 1900 by the ILP, the trade unions, the SDF, and the Fabians.

In conclusion, the years before the founding of the Labour Party showed a close parallel development of British socialism and liberalism leading to a very similar set of ideas. Revolutionary aspects did not play a vital role in the British version of socialism. The 'Progressives', as the anti-conservative political players were called, developed a sort of social liberalism that was also widely accepted in socialist circles. Therefore, the founding of the Labour Party was more due to the wish for direct representation in the system rather than ideological homelessness. In effect, this made early British socialists active players in a system most of their more radical counterparts rejected.

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<sup>174</sup> See the 'Taff Vale Case' in the next section.

<sup>175</sup> See *ibid.*, pp. 5 sqq.

#### **4.2     The early Labour Party, Clause IV and Labour's first governments**

In the first years of its existence, the LRC was able to increase its membership significantly. This development was due to increasing numbers of trade unions affiliating with the LRC. The Taff Vale case (1900-01) against the Railway Servant trade union<sup>176</sup> that was also supported by a House of Lords decision, left the impression that trade unions might be liable for financial damages caused by strikes. After realising that the Salisbury government was unlikely to help the trade unions with legislative action, the LRC leaders Keir Hardie and Ramsay MacDonald quickly realised the potential of this situation and emphasised to the trade unions that this House of Lords decision made direct Labour representation in parliament a pressing issue. As a result, more and more trade unions joined the LRC leading to a rise of individual members to roughly 850,000 by 1903 and to more financial resources being available to the LRC.<sup>177</sup>

In 1900, shortly after its foundation, two LRC members were elected into parliament. Neither the successful Richard Bell nor Keir Hardie was opposed by a Liberal candidate. Having secured the considerable growth of their own party, the LRC tactically prepared for the general elections of 1906 by negotiating a pact with the Liberal Party:

After protracted and secret negotiations, MacDonald and Hardie reached an agreement with Herbert Gladstone, the Liberal Chief Whip, under the terms of which the Liberal leaders agreed to use their influence to prevent local Liberal opposition to any L.R.C. candidate who supported "the general objects of the Liberal Party"; in return, the L.R.C. was to demonstrate "friendliness" to the Liberals in any constituency where it had influence.<sup>178</sup>

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<sup>176</sup> The Taff Vale Company sued the Railway Servants union for compensation caused by an earlier strike.

<sup>177</sup> See Adelman, Paul (1986): *The Rise of the Labour Party 1880-1945*, Longman, London, pp. 31 sqq.

<sup>178</sup> Miliband, Ralph (1972): *Parliamentary Socialism*, Merlin Press, London, p. 20.



The secret pact worked well for the LRC in electoral terms. The number of Labour MPs was increased to twenty-nine, of which only five were opposed by Liberal candidates. Together with twenty-four more 'Lib-Lab' members<sup>179</sup>, it was a considerable power in parliament.

However, the electoral pact also had consequences after the election. Owing to the fact that many Labour MPs<sup>180</sup> were elected with Liberal support, it was one of the forces maintaining a close relationship between the Liberals and Labour in parliament. Additionally, the liberal programme of social legislation made it virtually impossible for the Parliamentary Labour Party (PLP) to disagree without losing credibility, although many PLP socialists objected to some aspects of this legislation.<sup>181</sup>

The years after the 1906 general election also showed a clear lack of unity within the PLP. It portrayed the founding situation of the LRC: a federation of independent organisations with a division line between the trade unions and the socialist organisations.<sup>182</sup> This situation became obvious in the election of the PLP's chairman. Keir Hardie from the ILP and the trade union leader David Shackleton ran as candidates. Keir Hardie could only win a majority of votes after Ramsay MacDonald as secretary of the extra-parliamentary party participated in the third vote after having been absent due to his office in the ones before.<sup>183</sup>

Before World War I started, Labour could not distinguish itself clearly from the Liberals. Not just the secret electoral agreement, but also the 'Osborne Judgement',

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<sup>179</sup> MPs elected in certain areas where the miners' unions, because of its concentration of membership, could force the Liberal Party to accept their candidates were called 'Lib-Labs'. The 'Lib-Labs' merged with the Labour Party with the miners' union joining it in 1909.

<sup>180</sup> After the 1906 general election, the LRC assumed the name 'Labour Party'.

<sup>181</sup> See Adelman, Paul (1986): *The Rise of the Labour Party 1880-1945*, Longman, London, p. 40.

<sup>182</sup> Admittedly, this division is rather general as there were also different currents in the socialist groups.

<sup>183</sup> See Pelling, Henry (1985): *A Short History of the Labour Party*, MacMillan, London, p. 20.

that made funding of political organisations by trade unions illegal and thus cut Labour off from its most important financial resource, urged Labour to stay close to the Liberals. After the two elections of 1910, Labour was bound to sustain the Liberal party in power. Otherwise the 'Trade Union Act' of 1913 that formally allowed political funding by the trade unions would not have been possible. At the same time, Labour was able to expand its membership and influence base in the cities and the regions. By 1914, Labour was consolidated throughout Britain.<sup>184</sup>

In the wake of World War I, Labour for the first time participated in a government. The Liberal Prime Minister Asquith was forced to include the Conservatives and Labour into his war government. Parts of the Labour Party were unhappy to join because they feared losing the capacity of independent criticism once in office. As in the Liberal Party, Labour too was divided over whether or not Britain should enter the war. Owing to his resistance to entering, Ramsay MacDonald resigned as chairman of the PLP and Arthur Henderson, who also became the first Labour minister, succeeded him.<sup>185</sup>

During World War I, the decline of the Liberal Party proceeded. The party which profited most from the Liberal decline was the Labour Party. This was not only due to the emerging political vacuum of which the Labour Party was able to take advantage, but also because the considerable expansion of trade union membership, between 1915 and 1920, enlarged Labour's electoral base.<sup>186</sup>

The electoral reform of 1918 tripled the size of the general electorate and also gave women over the age of thirty their suffrage. The acceptance of a new Labour

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<sup>184</sup> See *ibid.* pp. 28 sqq.

<sup>185</sup> See Adelman, Paul (1986): *The Rise of the Labour Party 1880-1945*, Longman, London, pp. 46 sqq.

<sup>186</sup> See McKibbin, Ross (1974): *The Evolution of the Labour Party 1910 – 1924*, Oxford University Press, Oxford, p. 241.

constitution in the same year prepared the Labour Party to take advantage of the new electoral circumstances competing with a divided and weakened Liberal Party. Organisationally, the party adopted a modernised structure introducing individual membership<sup>187</sup> and strengthening the development of local parties. The new constitution involved a twenty-three strong executive committee that represented affiliated organisations (13), local Labour Parties (5), women (4), and an elected treasurer. As regards programmatic content, the famous Clause IV of the party's constitution, that committed the Labour Party to common ownership of the means of production, was the most striking aspect. Clause IV represented a distinct commitment to socialism. However, this commitment must be seen in relation to communism that gained influence in Western Europe in the wake of the revolution in Russia. It was seen as an opposing alternative to communist tendencies.<sup>188</sup> Thus in result, the commitment to socialism was a move to the left but at the same time a clear rejection of more radical ideas which might conflict with parliamentary democracy.

In the policy statement *Labour and the New Social Order* of 1918 that was, as Clause IV, the work by the Fabian Sydney Webb, four principles were adopted that would become the basis of Labour policy until the general election of 1950. These four principles comprised the following:

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<sup>187</sup> Prior to the new constitution one needed to be a member of the associated organisations to be a party member.

<sup>188</sup> See Adelman, Paul (1986): *The Rise of the Labour Party 1880-1945*, Longman, London, p. 51.

Figure 5<sup>189</sup>

<b>1. National Minimum</b>	policy of full employment, minimum wage, minimum standard of working conditions, maximum working time of 48 hours a week
<b>2. Democratic Control of Industry</b>	nationalisation of industry
<b>3. Revolution in National Finance</b>	subsidisation of social services by heavy taxation of large incomes, immediate capital levy to pay off a part of the costs of war
<b>4. Surplus for the Common Good</b>	balance of the nations wealth should be devoted to expanding opportunities in education and in culture for the people as a whole

In the literature, there are several opinions about what *Labour and the New Social Order* ideologically meant for the party. It could be seen as a ‘compromise between Marxian Socialism (...) and (...) social reform’<sup>190</sup> or simply as the ‘explicit affirmation by the Labour Party of its belief that piecemeal collectivism, within a predominately capitalist society, was the key to more welfare, higher efficiency, and greater social justice.’<sup>191</sup> Clause IV and the *Labour and the New Social Order* statement gave Labour a socialist image. However, the party never doubted parliamentary government nor did it become revolutionary. In this sense, even in 1918 and with Clause IV, Labour remained within the exceptional concept of British socialism.

The Labour Party of the 1920s was dominated by Ramsay MacDonald. In 1924, he became the first Labour Prime Minister. Once in office, and also due to the fact that Labour formed a minority government with the Liberals backing it, MacDonald did not make much effort to realise Labour’s socialist agenda. He was more concerned that his government was perceived as responsible and as the alternative to a Conservative government. Furthermore, the first Labour administration did not support the special

<sup>189</sup> Information taken from: Pelling, Henry (1985): *A Short History of the Labour Party*, MacMillan, London, p. 44.

<sup>190</sup> Ibid.

<sup>191</sup> Miliband, Ralph (1972): *Parliamentary Socialism*, Merlin Press, London, p. 62.

interests of the trade unions very much which made the TUC feel neglected.

MacDonald's policy towards Russia that included the recognition of the Soviet Government and the negotiation of a general and commercial treaty – that in fact met many of the points the earlier Liberal Government of Lloyd George sought to secure – lead to his defeat after only nine months in office.<sup>192</sup>

In 1929 Labour for the first time became the strongest party in parliament and MacDonald became Prime Minister for the second time, having retained the leadership after his first government ended. His second administration included many known faces from the first. However, the government failed since it was unable to take effective measures against the high level of unemployment in Britain. The second Labour government was finally brought down over major disagreements in the Cabinet over a saving programme that included considerable cuts in unemployment benefits. MacDonald, who was in favour of the cuts, resigned as Labour Prime Minister but accepted the King's invitation to form a National Government consisting of the Labour ministers loyal to MacDonald as well as Liberal and Conservative members. After the end of the economic crisis, there should be a general election not fought by the National Government but independently by the three parties.<sup>193</sup> Due to his acceptance of the plan, MacDonald was expelled from Labour.

The evolution of the Labour Party from its founding until the 1930s showed an interesting mixture. It consisted of independent organisations that affiliated themselves to the party. Ideologically, until 1918, it was quite close to the social liberal reformism also pursued by the Liberal Party. After the new party constitution including

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<sup>192</sup> See Wrigley, Chis (1999): James Ramsay MacDonald: 1922-1931, in: Kevin Jefferys (ed.): Leading Labour: From Keir Hardie to Tony Blair, I.B. Tauris, London, pp. 28pp.

<sup>193</sup> See Pelling, Henry (1985): A Short History of the Labour Party, MacMillan, London, pp. 65 sqq.

Clause IV was accepted, the party formally committed itself to socialism and public ownership of the means of production. However, as the decline of the Liberal Party became more and more obvious, Labour did not pursue its socialist economic agenda in office. Moreover, the integration of the party in the British system was a main objective of the leadership:

In the 1920s, Ramsay MacDonald had done his best to widen the Labour Party's intellectual and social base, and to present it to the country as the only legitimate descendent of the Edwardian Liberal Party rather than as the political instrument of the organised working class.<sup>194</sup>

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Marquand, David (1999): *The Progressive Dilemma: From Lloyd George to Blair*, Phoenix, London, p. 47.

#### 4.3 The Attlee administration and Labour's Revisionism

In the 1930s, Labour recovered from the consequences of the MacDonald crisis and introduced changes to its organisational structure. In the wake of these reforms, the trade unions became more powerful in the party. The emergence of Roosevelt's New Deal coalition in the United States also had some influence on the development of the Labour Party. However, it did not manage to set up a similar coalition in Britain.<sup>195</sup>

After the end of the war coalition under the Premiership of Winston Churchill, the 1945 elections were a huge success for the British Labour Party resulting in Labour's first Commons majority, however admittedly privileged by the electoral system. Led by Clement Attlee, the Labour Party's programme was in large parts congruent with the policy declaration *Labour and the New Social Order* of 1918. The election manifesto of 1945 *Let us face the future* was based on four rules:

First, the whole of the national resources, in land, material and labour must be fully employed (...) Over-production is not the cause of depression and unemployment; it is under-consumption that is responsible (...). This must be corrected because, upon our ability to produce and organise a fair and generous distribution of the product, the standard of living of our people depends.

Secondly, a high and constant purchasing power can be maintained through good wages, social services and insurance, and taxation which bears less heavily on the lower income groups. (...)

Thirdly, planned investment in essential industries and on houses, schools, hospitals and civic centres will occupy a large field of capital expenditure. (...) The location of new factories will be suitably controlled and where necessary the Government will itself build factories. (...)

Fourthly, the Bank of England with its financial powers must be brought under public ownership, and the operations of the other banks harmonised with industrial needs.<sup>196</sup>

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<sup>195</sup> See *ibid.* pp. 12 sqq.

<sup>196</sup> Labour Party (1945): *Let us face the Future*, Election Manifesto, London.

Labour realised large parts of its nationalisation agenda between 1945 and 1949. Among the industries that were nationalised were the Bank of England, civil aviation, Cable and Wireless, coal, railways, long distance road transport, electricity, gas, iron, steel and the NHS. Hence for the first time, a Labour government pursued the nationalisation agenda in office.<sup>197</sup>

However, the Attlee administration was not just remembered for its nationalisation policies. It also introduced a welfare state in Britain. Yet, academic analyses about the introduction of a comprehensive welfare system in Britain argue that Labour or the Attlee administration had no exclusive right to welfare ideas and once again show how important it is to look at decisive developments in a historical perspective:

Indeed, much of the inspiration for the welfare fabric (...) had come from Labour's political opponents. A major impetus had derived from the New Liberalism of pre 1914 (...). The Labour Party, then, had no monopoly of social concerns.<sup>198</sup>

The preconditions for the establishment of a welfare system in Britain were achieved after a group that (at least at the beginning of the negotiations) was lead by John Maynard Keynes – himself a liberal – managed to acquire a major loan from the United States to help the country out of its post-war misery. Furthermore, Keynes' economic theory of demand management was a very important impetus for the Attlee government that can also be detected in the 1945 manifesto, especially in its passages about unemployment and its causes.<sup>199</sup>

The key figure of the government's welfare programme was Aneurin Bevan. He was the architect of the housing programme and most notably the father of the free

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<sup>197</sup> See Morgan, Kenneth O. (1984): *Labour in Power: 1945 – 1951*, Clarendon Press, Oxford, p. 98.

<sup>198</sup> Ibid, pp. 143 sqq.

<sup>199</sup> See the four rules of the 1945 election manifesto quoted earlier in this chapter.



National Health Service (NHS). Disputes about whether or not there should be charges on the NHS eventually lead to the resignation of Bevan after the new, and at that time rather inexperienced, Chancellor Hugh Gaitskell brought the issue back on the agenda in 1951.<sup>200</sup>

When Labour lost the general election in October 1951 it tried to position itself as an opposition party. Ideological controversies, already initiated during Labour's period of governance, moved to the centre of attention. After the resignation of Bevan, Wilson, and Freeman from the government, the more moderate ranks of Labour saw the party being attacked by the left wing from within. The counter reaction was initiated by a relatively small group within the PLP that pursued an intellectual alternative to the party's left. This group which formed around the leading figure Hugh Gaitskell became known as 'Revisionists' and their advocated programme as 'Revisionism'.<sup>201</sup>

One striking difference to the left wing socialists was the fact that the Revisionists were prepared to accept a greater degree of material inequality but stressed social equality; thus for revisionists not every equality problem had an economic background. Anthony Crosland put the argument most distinguishably, that equality is concerned with social status and not just with economic wealth. He further 'asserted that Marx's predictions of capitalist societies polarising before revolutions established left wing governments had been proved helplessly wrong; the working class had ignored revolutions and had been strengthened by full employment.'<sup>202</sup>

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<sup>200</sup> See Morgan, Kenneth O. (1984): *Labour in Power: 1945 – 1951*, Clarendon Press, Oxford, pp. 160 sqq.

<sup>201</sup> See Haseler, Stephen (1969): *The Gaitskellites: Revisionism in the British Labour Party 1951 – 1964*, MacMillan, London, pp. 7 sqq.

<sup>202</sup> Jones, Tudor (2001): *Remaking the Labour Party: From Gaitskell to Blair*, Routledge, London, p. 112.

The different outlook of the Revisionists also became clear in Gaitskell's – at the time leader of the party – attack on Clause IV of the Labour Constitution at the 1959 conference.<sup>203</sup> At no point, did he advocate the complete abolition of it. Moreover, he aimed at updating the clause. The mixed economy and not the nationalisation of every single industry was the belief of the Revisionists. In the end, Gaitskell however could not push through his amendments due to opposition by the major trade unions.<sup>204</sup>

The generation of Revisionists was also clearly influenced and attracted by the New Deal consensus in the United States and especially by the New Deal and Fair Deal Democrats. It was believed that the liberalism of the Democrats was assuming a social democratic outlook. The way in which the New Deal included a social democratic tinge in Democratic liberalism was dealt with in more detail in Chapter 3. Crosland, the most important thinker of 1950s revisionism was also influenced by America and especially the absence of class consciousness discussed earlier in this thesis.

(...) attitudes between classes were less subject to deference and class consciousness; social relations were fluid and dynamic, whereas in Britain they were rigid and static. (...) the most significant attribute Crosland considered should and could be imitated in Britain was egalitarianism. (...) Yet, the corollary of this egalitarianism was, he argued, competitive entry into industry; an end to nepotism and favouritism; the virtual elimination of inheritance; abolition of fees in public schools; and the "extrusion of all hereditary influences in our society".<sup>205</sup>

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<sup>203</sup> The Labour Conference with Gaitskell's attempt to change Clause IV was held in exactly the same month as the famous Bad Godesberg conference of the German SPD that will be discussed in the next chapter.

<sup>204</sup> See Haseler, Stephen (1969): *The Gaitskellites: Revisionism in the British Labour Party 1951 – 1964*, MacMillan, London, pp. 158 sqq.

<sup>205</sup> Fielding, Steven (2001): 'But westward, look, the land is bright': Labour's Revisionists and the Imagining of America, c. 1945-64, in: Jonathan Hollowell (ed.): *Twentieth-Century Anglo-American Relations*, Palgrave, New York, p. 98.

So, Crosland saw clearly an advantage in the American societal structure providing opportunities that should also be developed in Britain. However, under the leadership of Gaitskell, Labour did not manage to win a general election.<sup>206</sup>

As regards inner-party debates, the Revisionists lost momentum after the Clause IV defeat. The left wing of the party remained the most important and powerful internal party rival. They never accepted the party's move towards the centre and first Aneurin Bevan and later Michael Foot opposed Labour's development of, what they called, a 'diluted ideology'.

Part of the reason why Labour's influential left could rise again and force the party in their direction was the fact that former party leaders did not use their aggregate power of being party leader and Prime Minister at the same time in order to push Labour towards a more moderate programme. Namely Harold Wilson and later James Callaghan, both heads of moderate Labour governments, did not pay the necessary attention to left streams within the party whilst they were residing at 10 Downing Street. The bad performance of the Labour governments in the 1970s led to a weakened position of the social democrats<sup>207</sup> so they became vulnerable to the left wing. When Callaghan eventually lost power in 1979, the social democrats were weakened further and hard ideological inner-party disputes accelerated.

In policy terms however, the governments of Wilson<sup>208</sup> and Callaghan introduced already some changes that can be seen as presaging later New Labour policies. The abandonment of Keynesianism and the introduction of monetarism in the

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<sup>206</sup> Gaitskell died while leader of the opposition.

<sup>207</sup> The Revisionists preferred to call themselves social democrats rather than socialists.

<sup>208</sup> See for instance Donoughue, Bernard (2006): *Downing Street Diary. With Harold Wilson in No. 10*, Pimlico, London.

wake of the IMF crisis in 1976 was an important policy change.<sup>209</sup> In his influential Ruskin speech too, Callaghan announced objectives of educational policies that show similarities to the later approach by New Labour:

The goals of our education, from nursery school through to adult education, are clear enough. They are to equip children to the best of their ability for a lively, constructive, place in society, and also to fit them to do a job of work.<sup>210</sup>

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<sup>209</sup> See Hennessey, Peter (2000): *The Prime Minister. The Office and its Holders since 1945*, Penguin, London, pp. 381 sqq.

<sup>210</sup> Callaghan, James (1976): Towards a national Debate, speech at Ruskin College, Oxford, on October 18th, available at <http://education.guardian.co.uk/thegreatdebate/story/0,9860,574645,00.html>.

#### **4.4     The Labour Party in Crisis and Neil Kinnock's Policy Review**

Eric Shaw, who authored the most comprehensive academic account of Labour's evolution between 1979 and 1994, called this particular period 'Crisis and Transformation'.<sup>211</sup> The party's crisis clearly worsened with Labour's departure to a political programme that in many respects represented more radical left wing policies than the party embraced for decades before.<sup>212</sup> Labour's Revisionists still believed that the politics identified with Keynesian demand management economics provided sufficient means of mastering collective control over the British economy. The left wing of the party however, that came to dominate the party after 1979, promoted and enforced an agenda that was much more in favour of a greater role of the state as supplier rather than active manager in the economy.<sup>213</sup> This role of the state was accompanied by policies of increased state expenditure, unilateral disarmament, and withdrawal from the European Economic Community (EEC). The new agenda was most comprehensively presented in Labour's Programme 1982, on which basis the 1983 election manifesto was drawn.<sup>214</sup>

Michael Foot, the new party leader, failed to maintain unity within the party. The hard left of the party treated him with the same kind of disrespect they had shown against other leaders such as Hugh Gaitskell and on the right, senior figures left the party and founded the Social Democratic Party (SDP).<sup>215</sup> Before the general election of

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<sup>211</sup> See Shaw, Eric (1994): The Labour Party Since 1979: Crisis and Transformation, Routledge, London.

<sup>212</sup> For more details about Labour's ideological dispute see also Haseler, Stephen (1980): The Tragedy of Labour, Blackwell, Oxford, Hodgson, Geoff (1981): Labour at the Crossroads: The Political and Economic Challenge to the Labour Party in the 1980s, Martin Robertson, Oxford, and Kogan, David, Maurice Kogan (1983): The Battle for the Labour Party, Kogan Page, London.

<sup>213</sup> See Shaw, Eric (1994): The Labour Party Since 1979: Crisis and Transformation, Routledge, London, p. 11.

<sup>214</sup> See Labour Party (1982): Labour's Programme 1982, London.

<sup>215</sup> For a comprehensive account of the SDP see Crewe, Ivor, Anthony King (1995): SDP: the birth, life and death of the Social Democratic Party, Oxford University Press, Oxford and Williams,

1983, the right break-away group from Labour, SDP, formed an alliance with the Liberal Party; as the 'SDP Liberal Alliance' manifesto stated, a unique step in the history of British parliamentary democracy.<sup>216</sup> The formation of the actual Alliance was unique; however it was not politically strange. The programmatic similarities between socialism and liberalism, as this chapter demonstrates, go back to the very founding days of the Labour Party. The revisionist Labour right in particular, that advocated social reform and Keynesian economic policies, at the time in the early 1980s was ideologically close to the British Liberals. So, in a sense ideologically kindred spirits met in the Alliance. As for the view of the left-shifted Labour Party, the 'SDP Liberal Alliance' expressed their attitudes frankly in their 1983 programme for government:

The Labour Party has not become more moderate. The extremists have been taken out of the shop window; they have not been removed from the shop. The politics of nationalisation, attacks on private enterprise, withdrawal from Europe, with its devastating effect upon our exports and investment prospects, and alienation of our international friends and allies, are all enthroned and inviolate. Jobs and national safety would be at risk [if Labour were elected].<sup>217</sup>

Regarding the relationship between the Labour break-away group and the United States, some commentators saw the founding of the SDP as the climax of an 'American Tendency' in the Labour Party. Mainly due to the SDP's leading figures personal experiences in and relations to America, a direct influence of American institutions and persons on the SDP was constructed.<sup>218</sup>

It became clear in the general election of 1983 that the formation of the SDP made electoral success for the Labour Party virtually impossible. The non-Tory vote was permanently split. Under the weak and in almost all respects unsuccessful

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Geoffrey Lee, Alan Lee Williams (1989): *Labour's Decline and the Social Democrats' Fall*, MacMillan, London.

<sup>216</sup> See SDP/Liberal Alliance (1983): *Working together for Britain: Programme for Government*, London, p. 3.

<sup>217</sup> Ibid, p. 5.

<sup>218</sup> See Ramsay, Robin (2002): *The Rise of New Labour*, Pocket Essentials Politics, pp. 32 sqq.

leadership of Michael Foot, the Labour Party experienced an electoral disaster and only narrowly maintained its position as second largest party.

Michael Foot resigned after his electoral debacle and left Neil Kinnock, the new leader, a party that was badly divided and discouraged and whose political programme was frankly rejected by the electorate. In order to tackle the severe problems Labour was confronted with, Kinnock sought to change the party's internal organisation. First of all, he wanted to restore strong leadership. Additionally, he aimed at a new political strategy and desired to redefine the party's policies.

However, in his first years of leadership between 1983 and 1985, Kinnock only slowly managed to bring the party on the path of reform since he was still much restrained by its organisational structure. For instance, this became obvious in the circumstance that by that time he lacked safe majorities for his initiatives in either the NEC or the Party Conference. However, as the reform of the organisational structure seemed to be a prerequisite for the alteration of political strategy and policy, Kinnock worked intensely on this matter. By 1985, Kinnock, although urged to rely on the soft left in the NEC, had restored strong leadership with majorities for him in all important party institutions by means of subordination of the extra-parliamentary party to parliamentary leadership and intensified control over local party organisations including the transfer of rights from the Constituency Labour Parties (CLP) to ordinary party members. Hence, power in the party was shifted towards its leader and his enlarged leader's office.<sup>219</sup>

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See Shaw, Eric (1994): *The Labour Party Since 1979: Crisis and Transformation*, Routledge, London, pp. 29 sqq.



Concerning Labour's relationship to the trade unions, Martin J. Smith argues that there was no evidence that Kinnock wanted to break the 'Labour Alliance',<sup>220</sup>. However, besides needing the unions to implement his party changes, he introduced reforms to the relationship.<sup>221</sup> In effect, these changes were crucial. As early as 1984, Kinnock attempted to abolish union block votes and introduce a 'One-Member, One-Vote' (OMOV) system; this initiative was defeated by union block votes. However a decisive moment occurred when the unions accepted the loss of legal immunity from damages and financial consequences of strikes introduced by the Thatcher government; as shown earlier in this chapter, an issue that brought many unions into the party in the first place in the early twentieth century. The redefinition of the 'Labour Alliance' included the limitation of union block votes to a maximum of 40% of local party votes and a decrease of union votes at party conferences from 90% to 70%.<sup>222</sup> By 1990, the parliamentary leadership was less constrained than ever before and the power relationship between the party and the trade unions was shifted.<sup>223</sup>

The pursuit of a new political strategy was concentrated upon the development of new campaigning and communication techniques. A key figure in this process was Peter Mandelson, selected in 1985 to be Director of Campaigns and Communications. As Shaw argues, this strategy was the centrepiece of Kinnock's renewal efforts:

Changes in policy, presentation and organisation were all used to alter mass perceptions of the Party. Controversial and unpopular policies were shred and, under the aegis of the Policy Review, the Party's move towards the centre was

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<sup>220</sup> 'Labour Alliance' is used here as the alliance between the Labour Party and the trade unions.  
<sup>221</sup> See Smith, Martin J. (1994): Neil Kinnock and the Modernisation of the Labour Party, *Contemporary Record*, Vol.8, No.3, p. 557.

<sup>222</sup> The reduction of union block votes was proposed in 1990, but it was not implemented before 1993.

<sup>223</sup> See Ludlam, Steve (2004): The Trade Union Link and the Social Democratic Renewal in the British Labour Party, in: Haseler, Stephen, Henning Meyer (eds.): *Reshaping Social Democracy: Labour and the SPD in the New Century*, European Research Forum at London Metropolitan University, London, pp. 101 sqq.

accelerated. (...) More discreetly, both policy and organisational reforms were designed to demonstrate that the leadership was fully capable of mastering union power. (...) In short, the top priority was to convince the electorate that it was 'fit and able to govern.'<sup>224</sup>

As regards programmatic change in the Labour Party, the period between 1983 and 1987 was characterised by a rather slow renewal process. However, change took place in the area of council house sales, the proposal of withdrawal from the EEC was reversed, and the left-wing alternative economic strategy was abandoned. Policies in favour of economic planning, public investment, and state intervention were diluted, pledges for full employment were only cautiously given and the issue of industrial democracy was banned from the agenda.<sup>225</sup>

A crucial change at the beginning of Kinnock's chairmanship was the disempowerment or expulsion of hard left activists such as the members of Militant. Militant was a Trotskyite organisation that tried to radicalise the Labour Party from within – with some success. By the early 1980s, hard left activists were in important positions in the party what prevented the party from moving towards the political centre.<sup>226</sup> The disempowerment of the hard left opened up more room for political change. But the change until 1987 was not enough in electoral terms.

After the third successive election defeat in 1987, Kinnock set a two year deadline for a comprehensive Policy Review. The date of introduction hints at an important point: the Policy Review was, above all, a direct reaction to repeated electoral misfortunes.<sup>227</sup> In terms of economic policy outcome<sup>228</sup>, the Policy Review

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<sup>224</sup> Shaw, Eric (1994): *The Labour Party Since 1979: Crisis and Transformation*, Routledge, London, p. 211.

<sup>225</sup> See *ibid*, p. 206.

<sup>226</sup> See Thorpe, Andrew (2001): *A History of the British Labour Party*, Palgrave, Basingstoke, p. 197.

<sup>227</sup> See Jones, Tudor (1994): Neil Kinnock's Socialist Journey: From Clause IV to the Policy Review, *Contemporary Record*, Vol.8, No.3, p. 578.

<sup>228</sup> The most striking aspect of the Policy Review.

abandoned Keynesian demand management as economic means and thus shifted the Labour Party further to the right than even the Revisionist had wanted.<sup>229</sup> Instead of Keynesian economic policies, private investment became seen as the solution for economic development. Therefore, Shaw characterised Labour after the Policy Review as 'Post-Revisionist'.

Post-revisionism adjusted to the changes wrought since 1979: it accepted both the bulk of new labour law that so tightly constrained the unions and the massive privatisation wave with all its consequences for the government's diminishing revenue base and for a further widening in already huge inequalities in the distribution of wealth. It detected no conflict between the pursuit of corporate interests and the public good.<sup>230</sup>

The overarching aim of Labour's new economic outlook was to present a new solution that took into account the failures of the revisionist governments of the 1970s and overcome the dogmatic stances of the hard left that were so badly rejected in the general election of 1983. However, as mentioned above, the defeat the party suffered under Kinnock four years later was the driving force behind the Policy Review process. Even he himself stated the aim of electoral success to be the fundamental purpose behind his renewal efforts:

(...) at all times, I had to combine the process of adjustment with perpetual reminders of the purpose of change. The two were complementary: alterations in policy had to be made with continual reference to the need to be elected in order to be able to put principles into power.<sup>231</sup>

As Kinnock divided policy fields that needed to be altered into three categories determined by the amount of resistance to be expected when trying to change the fields, it was a logical response to first maximise the centralisation of power and

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<sup>229</sup> See Fielding, Steven (1994): Neil Kinnock: An Overview of the Labour Party, *Contemporary Record*, Vol.8, No.3, p.600.

<sup>230</sup> Shaw, Eric (1994): *The Labour Party Since 1979: Crisis and Transformation*, Routledge, London, p. 208.

<sup>231</sup> Kinnock, Neil (1994): Reforming the Labour Party, *Contemporary Record*, Vol.8, No.3, p. 540.

restore strong leadership within the party to accumulate the institutional power to touch even those fields where strong opposition seemed to be very likely.

However even after the Policy Review, Kinnock did not manage to win the 1992 general election and thus failed in achieving the central aim of his reforms.

Nevertheless, as regards programmatic trajectory of the party, he certainly moved Labour from its hard left position of the early 1980s towards the centre. However, his replacement of party policies for electoral considerations led to the accusation that he was without socialist principles. In fact, some commentators argued that by 1992, Labour had more in common with liberalism than socialism.<sup>232</sup>

When John Smith succeeded Kinnock after his resignation in 1992, the campaign and communications experts of the party felt that the modernisation process, which according to their view should be pursued even harder rather than being carried off after the fourth successive electoral defeat, was hampered by the new leader. At least they perceived his commitment to modernisation as insufficient. Smith also objected to Peter Mandelson, by that time new MP for Hartlepool, leading to Mandelson 'kicking his heels in London and Hartlepool' in the years of Smith's leadership.<sup>233</sup>

At the 1993 party conference, Smith himself wanted to go on with proposals the 'Gang of Three' (Williams, Rodgers and Owen) put forward before they defected and formed the SDP together with Roy Jenkins.<sup>234</sup> This agenda included the introduction of an OMOV system and the reduction of union block votes. The

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<sup>232</sup> See Fielding, Steven (1994): Neil Kinnock: An Overview of the Labour Party, *Contemporary Record*, Vol.8, No.3, p.600.

<sup>233</sup> See Gould, Philip (1998): *The Unfinished Revolution: How the Modernisers saved the Labour Party*, Little, Brown, and Company, London, p. 162.

<sup>234</sup> See Brivati, Brian (ed.) (2000): *Guiding Light: The collected speeches of John Smith*, Politico's Publishing, London, p. 165.

leadership of John Smith ended abruptly with his unexpected and sudden death by a heart attack in early 1994. His leadership period of only two years was too short to put his stamp on the party. However, in view of his popularity and political potential, John Smith's name was added to the list of 'best Prime Minister Britain never had'.

In sum, the Labour Party was still largely influenced by the far-reaching changes Kinnock introduced in his nine years of leadership by the time Tony Blair assumed the party's top job in 1994. It is hard to characterise the renewal period under Kinnock comprehensively and the analysis presented here only touches upon the aspects that are the most relevant for the general argument of this thesis. Maybe the words of Kinnock himself, when he was asked to present a brief ideological definition of the purpose of modernising, show the direction. However, his remarks were not unprecedented in the long history of socialism (and especially regarding its relationship with liberalism):

The objective of our activities is the enlargement of individual liberty, and we as democratic socialists understand that only to be feasible by the involvement of the collective contribution of the community.<sup>235</sup>

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Kinnock, Neil (1994): Reforming the Labour Party, *Contemporary Record*, Vol.8, No.3, p. 547.

#### **4.5     New Democratic Influence in the Making of New Labour**

Nobody would deny the fact that the transformation of Labour into New Labour was to some degree influenced by the development of the New Democrats in the United States. Some commentators even claimed that:

If imitation is the sincerest form of flattery, then Tony Blair flattered Bill Clinton by identifying his vision of a future Labour government closely with the aims and aspirations of the Clinton Democrats.<sup>236</sup>

Whereas it was not solely one single factor influencing the reform process of the Labour Party<sup>237</sup>, one can argue that the American influence on the Labour Party's transformation into New Labour was the certainly the single most important one. Or as Anthony Giddens put it: 'The Clintonite Democrats, of course, were the model for New Labour'.<sup>238</sup> In order to understand the exchange of ideas that took place, looking at the personal experience of the early driving forces behind New Labour, Tony Blair and Gordon Brown, is a valuable starting point.

Blair had his first US visit as an MP in 1986 and Gordon Brown's first contacts were established even before that time. They had a joint trip to the US in 1988 when Michael Dukakis was running on the Democratic ticket for the presidency. Between 1991 and 1993, they intensified their contacts in order to obtain fresh thinking for further reforms of the Labour Party. Their deep empathy for the US generated suspicion on Labour's hard left.<sup>239</sup> It was not only Tony Blair and Gordon Brown who established US links, but also Patricia Hewitt, when she was still working for Neil Kinnock in 1989, Ed Balls, Ed and David Miliband, Philip Gould, and Peter Mandelson

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<sup>236</sup> Jones, Peter (1997): America and the British Labour Party: The 'Special Relationship' at work, IB Tauris, London, pp. 225 sqq.

<sup>237</sup> See Miliband, Ed, interview with author, 3<sup>rd</sup> August 2004.

<sup>238</sup> Giddens, Anthony (2002): Where now for New Labour?, Polity, Cambridge, p. 7.

<sup>239</sup> See Seldon, Anthony (2004): Blair, Free Press, London, p. 119.

visited the New Democrats to learn about their experiences.<sup>240</sup> Blair learned not only how to reposition his party but also about modern campaigning techniques from senior Clinton strategists such as Paul Begala and Sydney Blumenthal.<sup>241</sup> In contrast to this, as Will Marshall recalls, Gordon Brown in particular 'had an intellectual appetite in new ideas and was interested in what we had in the New Democrat reforms'.<sup>242</sup> Even by that time, there was a divergence of interest detectable: Tony Blair focused on aspects of 'how to get elected' whereas Gordon Brown seemed to be much more interested in the depth and roots of the policy platform developed by the DLC and PPI.

A real increase in the intensity of the contacts came in 1992, when Bill Clinton became personally involved in the exchanges with the Labour Party. Under the impression of the New Democrat victory, Tony Blair even more focused on lessons for electoral success as some Clinton aides recalled after meeting Blair in the White House: 'It was talk about elections and campaigning rather than detailed policy that principally captivated him'.<sup>243</sup>

In spite of the Labour leadership under Smith being fairly critical towards American influence, the 1992 presidential election was also studied in detail by Labour party staff. Several full time Labour members of staff volunteered their services for the New Democrat campaign machine in 1992. Their overall aim was:

(...) to look in some detail at the way in which the Clinton/Gore campaign was organised nationally and locally; how they attempted to get the message across to the media, the voters and their election campaigners; how the campaign was financed; the extensive use of telephones; the motivation of volunteers and an analysis of the result.<sup>244</sup>

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<sup>240</sup> See Marshall, Will, interview with author, 10<sup>th</sup> February 2004.

<sup>241</sup> See Seldon, Anthony (2004): *Blair*, Free Press, London, p. 123.

<sup>242</sup> See Marshall, Will, interview with author, 10<sup>th</sup> February 2004.

<sup>243</sup> Seldon, Anthony (2004): *Blair*, Free Press, London, p. 368.

<sup>244</sup> Labour Party (1992): *The American Presidential Election 1992 – what can Labour learn?*, London, p. 1.



On the basis of identifying differences in the political systems of the US and the UK, they issued a 54 page report arguing that the Labour Party should adopt crucial campaigning techniques such as fundraising strategies and targeting of focus groups (in the case of their report how to target women). A further point of interest was the general strategy of how the Democrats made their party electable again. Regarding the latter issue, the authors of the report answered the question why Clinton was so effective by arguing that he learned from the Dukakis' defeat in 1988 and thus 'formed the Democratic Leadership Council'<sup>245</sup> in an effort to make their party relevant to the 92% of the population who believed themselves to be middle class.'<sup>246</sup>

Another report on the 1992 presidential elections was produced and sent to the Labour leadership by Philip Gould. Discouraged by the reception of his advice – 'I don't believe John Smith took any notice of the notes I wrote him (...)'<sup>247</sup> – he turned to Tony Blair and Gordon Brown of whom he had the impression were changing the party.<sup>248</sup> Philip Gould's effort at this stage also involved the organisation of a 'Clinton conference' at the Queen Elizabeth II Conference Centre in Westminster where most of Clinton's senior staff attended. This conference produced further criticism about the 'Clintonisation' of the Labour Party and the call not to be disruptive, articulated in particular by John Smith and John Prescott.<sup>249</sup> Gould injected his thoughts in the general debate about the renewal of the Labour Party by co-authoring an article with Patricia Hewitt called 'Lessons from America' for the first issue of the new journal

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<sup>245</sup> We have seen in Chapter 3 that this analysis of Clinton's role in the development of the DLC is inaccurate.

<sup>246</sup> Labour Party (1992): The American Presidential Election 1992 – what can Labour learn?, London, p. 24.

<sup>247</sup> Gould, Philip (1998): The Unfinished Revolution: How the Modernisers saved the Labour Party, Little, Brown, and Company, London, p. 178.

<sup>248</sup> See *ibid.*

<sup>249</sup> See *ibid.*, p.176.

*Renewal* arguing that Labour should emulate Clinton's success and reposition the party.<sup>250</sup>

Another important figure in the relationship between Labour and the New Democrats was Jonathan Powell.<sup>251</sup> He organised the meetings for Brown and Blair in Washington when they came to the United States as visiting MP's and struck the attention of Anji Hunter, a close aide of Tony Blair's. Whilst working in the British embassy in Washington he developed a very good understanding of American politics. He was also particularly close to the 1992 Clinton election campaign and followed the trail. Elaine Kamarck remembers him:

I saw him on the trail reading *Boys on the Bus*, an American classic. He understood American politics better than any foreigner I've ever met. At that time, I didn't know whether he was just being very conscientious or whether he had other priorities.<sup>252</sup>

After Tony Blair became leader of the Labour Party, Jonathan Powell joined his team. As Blair's story developed to become a success, Powell stayed with him and eventually became Chief of Staff in 10 Downing Street.

Given the close personal relationships to the New Democrats of the New Labour protagonists and a fair number of later top aides and advisers, the early influence of the Third Way had many channels to enter the Labour Party. However, the character of influence changed after Clinton's presidential victory. His electoral success and the period immediately after his inauguration showed Labour two things about the Third Way. First, it was appropriate and capable of providing electoral success on the highest level. And second, the Third Way's rather broad appeal does not necessarily provide a useful platform for government. In his first two years in office,

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<sup>250</sup> See Gould, Philip, Patricia Hewitt (1993): *Lessons from America, Renewal*, Vol.1, No.1.

<sup>251</sup> An interesting point about him is that his brother, Charles Powell, was a career civil servant who was particularly close to Margaret Thatcher as her adviser.

<sup>252</sup> Seldon, Anthony (2004): *Blair*, Free Press, London, p. 337.

Clinton drifted back to a more 'old Democrat' agenda in the eyes of many observers.

Admittedly, his governmental course was also influenced by the institutional problems of finding majorities which in turn were due to the American political system.<sup>253</sup>

However, this experience led Labour to even more accept the need for developing a clear alternative to the old agenda and to remain on this course. As Gordon Corera observed:

The experience of Clinton's disastrous first hundred days and problematic first two years were closely studied by New Labour, who realised the importance of setting the agenda and not merely responding to events, as well as establishing a clear break from previous Labour governments and showing that New Labour really was different.<sup>254</sup>

Given the circumstances of the British political system, with a stronger party discipline and often comfortable parliamentary majorities for the governing party, Labour realised that it had fewer institutional problems than the New Democrats to implement its Third Way agenda once in power.<sup>255</sup>

This section sketched out the channels via which the Labour Party received impulses from the New Democrats in the US. In the next section, the changes Tony Blair brought about in the Labour Party will be the focus of attention. Especially structural changes within the party and the symbolic Clause IV rewriting will be discussed.

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<sup>253</sup> See Chapter 3.3 for a brief outline of these institutional difficulties.

<sup>254</sup> Corera, Gordon (2003): New Labour's love affair with the New Democrats, *Renewal*, Vol.11, No.1, p. 70.

<sup>255</sup> See Philpot, Robert (1999): Going the American Third Way. The DLC, *Renewal*, Vol. 7, No.1, p. 79.

#### 4.6 Tony Blair and his Party

There is a vast amount of literature about Tony Blair himself, his relationship to his party, the changes he introduced, and New Labour's governmental politics.<sup>256</sup>

Whereas his governmental policies will be assessed in a different chapter, the constitutional changes he introduced to the Labour Party are considered here. Given his personal circumstances which do not represent a typical working class or Labour background, the relationship between Blair and his party has always been difficult.

After becoming leader of the party in 1994 he saw his main task 'to complete the transformation of Labour from a party of protest to a party of government'.<sup>257</sup> However, from quite early in his career as Labour front bencher, he did not have the best relationship to the still powerful trade unions. He resolved the dilemma between the wish to accept the European Union Social Charter on the one hand and the section of it guaranteeing individuals the right not to be a trade union member on the other hand by picking the fight with the trade unions and position Labour as a pro-European rather than a trade union party. Since then, his relationship to the influential trade unions has never really recovered.<sup>258</sup>

Two major constitutional changes to the party characterise Blair's leadership.

First, the way he reformed the inner-party policy making process that changed

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Some of the most important monographs are (only literature that has not been mentioned before):

Finlayson, Alan (2003): Making Sense of New Labour, Lawrence & Wishart, London. Giddens, Anthony (2002): Where now for New Labour?, Polity Press, Cambridge. Ludlam, Steve, Martin J. Smith (ed.) (2001): New Labour in Government, MacMillan Press, London. Seldon, Anthony (ed.) (2001): The Blair Effect. The Blair Government 1997 - 2001, Little, Brown and Company, London. Coates, David, Peter Lawler (ed.) (2000): New Labour in power, Manchester University Press, Manchester. Heffernan, Richard (2000): New Labour and Thatcherism. Political Change in Britain, MacMillan Press, London. Hay, Colin (1999): The political economy of New Labour, Manchester University Press, Manchester. Driver, Stephen, Luke Martell (1998): New Labour. Politics after Thatcher, Polity, Cambridge.

<sup>257</sup>

Blair, Tony (1994): New and radical politics, *Labour Party News*, No. 7, Sep / Oct 1994, p. 5.

<sup>258</sup>

See Seldon, Anthony (2004): Blair, Free Press, London, pp 104 sqq.

decision-making in quite a substantial way and second, the change of Clause IV in Labour's constitution. The change of Clause IV in particular, that as was explored earlier in this chapter included Labour's commitment to socialism, was a victory of high symbolic worth for New Labour. Even given the reality that the original Clause IV had been widely ignored in practice, Tony Blair managed to achieve something the great revisionist of the 1950s, Hugh Gaitskell, did not: the substitution of the old phrasing with a new text that massively altered the content.

Blair's inner-party reforms were made easier owing to a considerable increase in membership in the time of Tony Blair's opposition leadership. Labour's membership rose by about 25% between 1995 and 1997 to a total number of 405.000 members. Many of these new members did not come from a working class background and were sympathetic to Tony Blair personally and his ideas rather than to the Labour Party.<sup>259</sup> Even if the party later on lost considerable amounts of members again<sup>260</sup>, the fast increase of a Blair friendly membership certainly made his reforms easier.

The National Executive Committee (NEC) and the annual conference, that used to be at the heart of Labour's policy making process, were weakened following the introduction of two new bodies in the party structure: the National Policy Forum (NPF) and somewhat later the Joint Policy Committee (JPC).<sup>261</sup> The NPF was introduced in 1990 under the leadership of Kinnock. It is an unofficial body of policy making outside the annual conference. Arguably, this external system was used to centralise policy

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<sup>259</sup> See Fielding, Steven (2002): *The Labour Party. Continuity and Change in the Making of New Labour*, Palgrave MacMillan, London, p. 128 sqq.

<sup>260</sup> It is hard to say whether the new members left the party again or whether old Labour members cancelled their membership.

<sup>261</sup> See McCaig, Colin (1998): Labour's Policy Development in Opposition: the changing constraints on action, *Journal of Vocational Education and Training*, Vol. 50, No.3, p. 427.

decision-making and limit the influence of other party sections. As Gerald Taylor observed:

The use of external policy making forums [the ones established during the Policy Review Process] and the creation of a National Policy Forum which receives little or no publicity excludes ordinary Party members and trade union affiliates in the same way.<sup>262</sup>

Blair used the changed basis created by the NPF to further transform Labour's decision-making process. Between 1994 and 1997, the trade unions were further weakened in Labour's internal setup. The so called 'Partnership in Power' reforms designed by Labour's general secretary Tom Sawyer amounted to nothing less than the greatest party constitution reform since 1918.<sup>263</sup> The 'Partnership in Power' programme had two objectives:

first, to sustain leadership accountability while guaranteeing it some autonomy; and second, to integrate members into policy making at the same time as minimizing conflict between party and government.<sup>264</sup>

The new body introduced in the framework of this programme was the JPC that consists of government ministers, NEC members, and members of the NPF. The JPC is chaired by the Prime Minister. The JPC also provides a direct link between the government and the party in order to both limit the line of attacks on the government from within the party and keep the party in tune with the government's agenda. The JPC also became the key institution in the new policy making procedure. It decides which policies should be debated and starts a two year long development process. The main place for debate is the NFP and its various sub-commissions that also take input from a variety of groups and local bodies. After the consultation process, the sub-

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<sup>262</sup> Taylor, Gerald (1997): *Labour's Renewal?*, MacMillan, London, p. 65.

<sup>263</sup> See Ludlam, Steve (2004): *The Trade Union Link and Social Democratic Renewal*, in: Haseler, Stephen, Henning Meyer (eds.): *Reshaping Social Democracy. Labour and the SPD in the New Century*, ERF at London Metropolitan University, London.

<sup>264</sup> Fielding, Steven (2002): *The Labour Party. Continuity and Change in the Making of New Labour*, Palgrave MacMillan, London, p. 130.



reject the policy proposals. Additionally, the party leadership has direct involvement in every stage of the process.<sup>266</sup>

The constitutional changes pursued by Tony Blair did not stop with reforming internal party procedures. In order to make it absolutely clear that Labour has changed and was no longer the party associated with representation of special interests and economic mismanagement, Blair needed a change of symbolic magnitude to send a clear signal not just to his own party but perhaps more importantly to the electorate. An attack on the Clause IV of the 1918 constitution seemed to be a perfect opportunity to display this profound change.

The old Clause IV and especially part 4 of it was the main statement of Labour being a socialist party as it included the commitment to the common ownership of the means of production, distribution, and exchange. It is easily observable in Labour's history that the clause was widely ignored in Labour's party action. That is why Tony Blair's attack on the 'holy cow' of the hard Labour left must be interpreted as the leader's wish for a clear distancing from outdated pieces of ideology – or old Labour as he would say. Blair saw the existence of Clause IV as an obstacle for the necessary readjustment of party policies. Additionally, it had the potential to confuse voters if the message of the current Labour leadership was in such obvious contradiction to the party's own constitution and last but not least it provided an excellent opportunity for the Tories to use Labour's constitution as propaganda against them.<sup>267</sup> In Tony Blair's own words, this argument sounded like this:

We need to say clearly to the voters what a Labour Britain would be like. That's why (...) I told our annual conference that we should have a modern statement

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<sup>266</sup> See Jun, Uwe (2004): Der Wandel von Parteien in der Mediendemokratie. SPD und Labour im Vergleich, Campus, Frankfurt, p. 172 sqq.

<sup>267</sup> See Mandelson, Peter, Rodger Liddle (1996): The Blair Revolution. Can New Labour deliver?, Faber and Faber, London, p. 52.



of aims and objectives which will set out what we stand for in the 1990s and beyond. (...) Our core belief is in the power of the community to liberate and enhance the life of the individual. And from that belief stem values like social justice, freedom, opportunity, equality, democracy and solidarity and responsibility at home and abroad.<sup>268</sup>

The rewriting of Clause IV was another occasion where Blair picked an internal power fight with the trade unions. Initially, parts of the trade union movement, led by the Transport Workers Union and Unison, wanted to negotiate concessions in return for their support of the Clause IV reform. Above all the clear commitment to a specific amount of national minimum wage was seen as an appropriate return by the trade unions. Tony Blair, however, decided again to play political hardball – a very bold decision given the scope and dangers of his attempted reform – and did not agree on any concessions or any sort of deal. The trade unions maintained their position but Blair won the political fight over them with strong support from individual grass-root members. The Clause IV reform was another major political struggle in which Blair took his stance against the trade unions. The reduction of their decision-making power within the party went on.<sup>269</sup>

The eventually agreed wording of the new Clause IV part 1 that states the ends of the Labour Party reads as follows:

The Labour Party is a democratic socialist party. It believes that by the strength of our common endeavour we achieve more than we achieve alone, so as to create for each of us the means to realise our true potential and for all of us a community in which power, wealth and opportunity are in the hands of the many, not the few; where the rights we enjoy reflect the duties we owe and where we live together freely, in a spirit of solidarity, tolerance and respect.<sup>270</sup>

The rewriting of Clause IV was a major programmatic change. And the new text clearly shows obvious similarities with the value statements of the New Democrats.

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<sup>268</sup> Blair, Tony (1995), *Labour Party News*, Clause IV Special, No.9, Jan./Feb.

<sup>269</sup> See Mandelson, Peter, Rodger Liddle (1996): *The Blair Revolution. Can New Labour deliver?*, Faber and Faber, London, p. 54.

<sup>270</sup> Labour Party (1995): *Labour Party Constitution*, Clause IV.

Particularly the focus on the 'individual' (see also Blair's quote on the last page) to fulfil his or her true potential in a community that should provide the circumstances for the successful development of the individual rather than equalising false allocations, is clearly in tune with the DLC statements. Furthermore, the reflexivity of rights and responsibilities within the community draws on the New Democratic understanding of American citizenship.

On the basis of the changed aims statement in the Labour Party constitution, the next section explores in some more detail what the Third Way, as a concept in the Labour Party, included. It will set out the value dimensions of New Labour's Third Way and its relationship to the New Democrats' statements of belief.

#### **4.7     New Labour's Third Way values**

There are numerous explanations and descriptions of New Labour's Third Way that have been articulated in academic accounts and the press. The assessments generally tend to be polarised. Commentators either seem to like the New Labour ideas and embrace them enthusiastically or present Blairite ideas as the selling out of the (socialist) soul of Labour. This polarisation might also be due to the, in many respects, arbitrary invention of 'New' and 'Old' Labour.<sup>271</sup> The aim here is not to judge the Third Way in these categories or in a perspective limited to the Labour Party but rather approach it on the basis of the New Democrat experience. In order to be as accurate as possible, Tony Blair's own statements of the Third Way will be given primary attention.

In the opening section of his most comprehensive account, Tony Blair clearly sets the basis on which New Labour's Third Way needs to be seen:

The Third Way is not an attempt to split the difference between Right and Left. It is about traditional values in a changed world. And it draws vitality from uniting the two great streams of left-of-centre thought – democratic socialism and liberalism – whose divorce this century did so much to weaken progressive politics across the West. Liberals asserted the primacy of individual liberty in the market economy; social democrats promoted social justice with the state as its main agent. There is no necessity of conflict between the two, accepting as we now do that state power is one means to achieve our goals, but not the only one and emphatically not an end in itself.<sup>272</sup>

This new merger of social democratic and liberal influence rests on the four core values of the British Third Way: equal worth, opportunity for all, responsibility and community.<sup>273</sup>

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<sup>271</sup> For an account of this see Fielding, Steven (2002): The Labour Party. Continuity and Change in the Making of New Labour, Palgrave MacMillan, London.

<sup>272</sup> Blair, Tony (1998): The Third Way. New Politics for the New Century, Fabian Pamphlet 588, London, p. 1.

<sup>273</sup> See *ibid.*, p. 3.

The 'equal worth' value is straight forward and manifests that every individual represents equal worth. Social justice must be achieved on this basis for every citizen regardless of age, racial background, religion, gender or health. This is in a sense the precondition for 'opportunity for all'. The concept of 'opportunity' in the context of the British Third Way is clearly dominated by economic considerations. Economic weakness is the main opponent of 'opportunities for all'. Therefore, growing and running a strong and stable economy in which everybody has his stake becomes the driving force behind the creation of opportunities. It was also made clear that this strong economy cannot be built either on the state as sole provider or dogmatic free market liberalism. It is rather a combination of partnerships between government and industry, employers and employees and the public and the private sector that creates a dynamic economy in which 'opportunity for all' can be provided.<sup>274</sup>

Individual responsibility in Tony Blair's definition of the Third Way regards two areas: first the obligations of individuals to one another<sup>275</sup> and second the relationship between the citizen and the state where, according to his belief, 'for too long the demand for rights (...) was separated from the duties of citizenship.'<sup>276</sup> For instance citizens have responsibilities if they receive public aid and to protect the environment. Parents have responsibilities for their children and their children's education.

The last value dimension is 'community'. Given the potential role of the state as provider or regulator, the government ought to be careful with its action and needs to make sure that interferences do not influence the work of the voluntary sector or the

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<sup>274</sup> See Blair, Tony (1996): New Statesman special selection from: New Britain. My vision of a young country, Fourth Estate, London, p. 32.

<sup>275</sup> See Richards, Paul (2004): Tony Blair. In his own words, Politicos, London, p. 203.

<sup>276</sup> Blair, Tony (1998): The Third Way. New Politics for the New Century, Fabian Pamphlet 588, London, p. 4.

local communities themselves negatively. The key role of the state is to act as an enabling and protection force for communities and voluntary organisations.<sup>277</sup>

The core values of New Labour's Third Way are very closely linked to the New Democrats public philosophy set out earlier. In fact, it is very hard to find a difference here. Tony Blair amended the DLC credo of 'opportunity, responsibility, community' with the value dimension of 'equal worth'. However, this is a dimension that is involved implicitly in New Democrat thinking; the statement of belief that the state should protect civil liberties and not racial, gender or ethnic separatism clearly indicates this.<sup>278</sup> The more detailed analysis matches the observations by Al From that New Labour pursued the same set of values and if at all only changed the wording.<sup>279</sup>

At this point, it is important to put forward some critical aspects and focus the attention to important shortcomings of the value basis of the Third Way. Taking into account that policies are just means and not ends in themselves and given the case that the evaluation of policies is simply whether they give effect to the values or not, one must state that this Third Way value basis is not clear and very open to interpretation. These values rather represent 'a broad avenue than a way' to use Wim Kok's words from the 1999 Washington summit mentioned earlier in this thesis. Stuart White observed:

Within this broad framework, however, there can also be (...) important differences of opinion concerning the interpretation of the core (but rather general) values associated with third way thinking and how the state should seek to advance them. And these differences ultimately suggest very different, potentially opposing, political projects.<sup>280</sup>

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<sup>277</sup> See *ibid.*

<sup>278</sup> See Chapter 3, Figure 4.

<sup>279</sup> See Al From, interview by author, 16<sup>th</sup> December 2003.

<sup>280</sup> White, Stuart (1998): Interpreting the Third Way. Not one road but many, *Renewal*, Vol. 6, No.2, p. 25.

The role of the state is also subject of another criticism of the Third Way by Ralf Dahrendorf. Given the state's role as an enabling power, as a power that sets the direction rather than offers provisions, Dahrendorf concludes that this means in other words that the state 'will no longer pay for things but tell people what to do'.<sup>281</sup>

It is also important to put on record that Blair himself and other important New Labour figures<sup>282</sup> recognised the strong influence of liberalism on their Third Way. Even explicitly, New Labour claims the tradition of both British socialism and liberalism and sees itself in the tradition of these two strands of progressivism.<sup>283</sup> As John Callaghan powerfully argued, since 1994 New Labour has pursued an ideology with a similar conceptual and policy content as the New Liberalism, however with completely opposite implications given the situation in the early 20<sup>th</sup> century and in the mid 1990s.<sup>284</sup> Taking into account New Labour's political position between socialism and liberalism, it is worth having a closer look at the party's relations with the Liberal Democrats.

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<sup>281</sup> Dahrendorf, Ralf (1999): Whatever happened to liberty?, *New Statesman*, Vol.12, No. 571, p. 27.

<sup>282</sup> See also Miliband, David (2002): From insurgents to incumbents. Maintaining our radicalism in a second term, *Renewal*, Vol. 10, No. 2, p. 57.

<sup>283</sup> See also Hain, Peter (2002): Back to our roots. A libertarian socialist route-map for Labour's future, *Renewal*, Vol. 10, No.3, p. 67 sqq.

<sup>284</sup> See Callaghan, John (2004): After Social Democracy – Programmatic Change in the Labour Party since 1994, in: Haseler, Stephen, Henning Meyer (eds.): Reshaping Social Democracy. Labour and the SPD in the New Century, European Research Forum at London Metropolitan University, London, pp. 143 sqq.

#### 4.8 New Labour and the Liberal Democrats

The previous sections indicated that deriving from the Third Way in the United States, Labour incorporated a huge dose of liberalism in its transformation process to become New Labour. Given this influence and the specialities in British socialism and liberalism described earlier, one logically concludes that there should have also been some significant changes in the relationship between a renewed Labour Party and the Liberal Democrats, themselves a product of the old Liberal Party and the Labour split-off SDP. It is the purpose of this section to investigate this relationship.

Generally, in the mid and end 1990s there was little doubt that there was a decent degree of ideological congruence between Labour and the Liberal Democrats. Fundamentally, it was the Labour Party led by Tony Blair that more and more moved into liberal territory with its abolition of Clause IV and the introduction of the Third Way set of values.<sup>285</sup> In consequence, this led to new equal ideologies in the crucially important fields of individual liberty and market economics, as Peter Joyce assessed.<sup>286</sup>

In the domain of individual liberty, the similarities in ideology were based on the abandonment of 'statism' by Labour.<sup>287</sup> Individual freedom generally goes as far as it does not interfere with the liberty of any other individual. A strong sense of community is crucial to this idea of liberty because strong communities provide the circumstances in which the individual can enjoy its liberty.<sup>288</sup>

The concept of 'stakeholding' is the centrepiece of liberal (not neo-liberal) market economics. This involves the acceptance of market economics as basic means to create wealth but also the recognition of the fact that a market economy needs

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<sup>285</sup> See Hirst, Paul (1999): *The strange death of New Labour England?*, *Renewal*, Vol. 7, No. 4, p. 10.

<sup>286</sup> See Joyce, Peter (1999): *Realignment of the Left? A History of the Relationship between the Liberal Democrat and Labour Parties*, MacMillan, London, pp. 268 sqq.

<sup>287</sup> Although there is disagreement amongst scholars about Labour's abandonment of 'statism'.

<sup>288</sup> See *ibid.*

regulation in order to deal with negative distributive outputs of the markets.

‘Stakeholding’ in contrast to ‘shareholding’ involves a wider societal responsibility of businesses. Their responsibility to the shareholders is amended by responsibility ‘to the wider community of the stakeholders that includes the customers they serve, the workers they employ and the localities they inhabit.’<sup>289</sup> In these two crucial fields of individual liberty and market economics, there was clear congruence between Labour and the Liberal Democrats.

And even before Tony Blair became leader of the Labour Party, there were already signs of ideological transformation by the Labour Party towards more liberal stances. This process began with the Policy Review and did not stop under John Smith either. As David Marquand observed, based on the same ideas in the area of the stakeholder economy, pluralistic polity and public domain / market relations, the independent Social Justice Commission set up by John Smith and the Dahrendorf Commission set up by Paddy Ashdown ‘struck essentially the same cords’.<sup>290</sup>

This development of a very similar set of values led to different reactions by Labour and the Liberal Democrats. Tony Blair saw this as an opportunity to realign the British left, which split in the early 20<sup>th</sup> century.<sup>291</sup> Also Roy Jenkins and other Liberal Democrats who had defected with the SDP from the Labour Party were very sympathetic to bringing back together the two streams of British progressive politics.<sup>292</sup> However, Paddy Ashdown, the leader of the Liberal Democrats since 1988,

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<sup>289</sup> Ibid, p. 272.

<sup>290</sup> Marquand, David (1999): The old Labour rocks re-emerge, *New Statesman*, Vol. 12, No. 574, p. 44 and Dahrendorf, Ralf (1999): Whatever happened to liberty?, *New Statesman*, Vol. 12, No. 571, p. 25.

<sup>291</sup> See MacIntyre, Donald (1999): *Mandelson and the Making of New Labour*, Harper Collins, London, p. 390.

<sup>292</sup> See Liddle, Roger (1994): Living with Labour, *Renewal*, Vol.2, No.1, pp. 91 sqq.



did not share this enthusiasm and saw Labour's Third Way more as a negative break into their own territory:

I knew that Blair, with his novel and powerful appeal and the whole weight of the Labour machine behind him, would now move rapidly on the ground for which I had been heading with the Lib Dems. That he would succeed handsomely. And what was more, there was nothing I could do about it.<sup>293</sup>

Not convinced of a possible merger of the two parties down the road, of which Tony Blair kept on talking in private conversations with Ashdown, the Liberal Democrats leader was nevertheless convinced that some sort of cooperation between the parties would help the Liberal Democrats to put some of their ideas into practice. Moreover, if this cooperation developed successfully, Ashdown saw the potential to fundamentally reform British politics for the good of progressive forces. This hope was centred on the issue of electoral reform and the inclusion of proportional representation (PR) in the elections for the European Parliament and in a next step also for Westminster elections.<sup>294</sup>

As early as 1995, Paddy Ashdown abandoned the equidistance between Labour and the Tories claiming that even they still believe Labour was not fit for government<sup>295</sup>, they see it as the representation of their voter's will to help to remove the Conservative government.<sup>296</sup> In 1996, both parties established the Joint Consultative Committee on Constitutional Reform under the leadership of Robin Cook and Robert MacLennan based on the common desire to engineer a more pluralist

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<sup>293</sup> Ashdown, Paddy (2001): *The Ashdown Diaries. Volume Two 1997-1999*, Penguin, London, p. 496.

<sup>294</sup> See Ashdown, Paddy (2000): *The Ashdown Diaries. Volume One 1988 – 1997*, Penguin, London, pp. 495 sqq.

<sup>295</sup> Although this point about 'not being fit for government' was perhaps tactical rhetoric in order to remain distinctive from Labour.

<sup>296</sup> See *ibid.* pp. 595 sqq.

polity in Britain.<sup>297</sup> This committee was also the place where the crucial PR question was debated.

When discussing ways (including formal ones) of potential cooperation after a Labour victory in the 1997 elections, it was Paddy Ashdown who pointed Tony Blair to a potential representation of Liberal Democrats in Cabinet Committees. This was then eventually also the way of cooperation Tony Blair chose after his election success. He again affirmed his will to heal the schism of British progressivism even after his huge landslide victory. However in the eyes of Ashdown, the moment immediately after the 1997 election – that brought also a major win for the Liberal Democrats as they were able to double their seats – was the crucial point in time when their cooperation missed the moment to realise profound changes to the British political system.

Membership in the Cabinet committees was seen as a weak solution.

From then on, the cooperation became worse and worse. They finally called it quits after Jack Straw harshly criticised the outcome of the Jenkins Commission, that developed an alternative electoral system for British elections, including PR elements, and Tony Blair did nothing to stop him. Following this, the Liberal Democrats became more of a traditional opposition party and Paddy Ashdown resigned shortly after this – however not owing to the failure of progressive realignment.<sup>298</sup> The Lib Dem's subsequently moved from 'constructive' to 'effective' opposition.

Admittedly, Tony Blair faced opposition to increased cooperation with the Liberal Democrats from within the Labour Party, including from Gordon Brown. The more traditional Labour politicians still felt a clear distinction between Labour and the

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<sup>297</sup> See Joyce, Peter (1999): *Realignment of the Left? A History of the Relationship between the Liberal Democrat and Labour Parties*, MacMillan, London, p. 275.

<sup>298</sup> Ashdown, Paddy (2001): *The Ashdown Diaries. Volume Two 1997-1999*, Penguin, London, pp. 10 sqq.

Liberal Democrats and given their massive majority in the House of Commons saw no apparent need for close cooperation. Nevertheless, also the relations with the Liberal Democrats showed, that New Labour's Third Way – even taking into account its huge space for different interpretations – was essentially made up of liberal ideas that produced a major ideological congruence of values between Labour and the Liberal Democrats.

### **Conclusion**

This chapter covers wide ground and was designed to provide insights into a variety of aspects. One of the key questions concerned Labour's historical relationship to liberalism. Michael Freeden described the difficult relationship between liberalism and social democracy for the British Labour Party as follows:

Although liberalism and social democracy have frequently displayed diverging sub-currents, they have been for the past century overwhelmingly involved in a complex series of intertwined relationships, overlaps, and parallel growth. This mutual succour has created a peculiar blend of ideas and programmes distancing both from classical liberal and from continental socialist positions.<sup>299</sup>

This quote suggests that the interwoven relationship between liberalism and social democracy in British history left social democrats and liberals in a rather unique situation. The episodes explored in this chapter support this assumption. In the early days of the Labour Party, there was a very similar political programme summarised under the terms 'New Liberalism' or the 'Progressive Alliance'. Only in 1918, did the Labour Party become 'socialist' as the Clause IV of the party constitution stated. However once in government Labour's first Prime Minister Ramsay MacDonald did not try to realise much of the socialist agenda. Rather he adjusted to the characteristics of the British political system and wanted to present Labour as the anti-Conservative alternative government drawing on a liberal tradition. The Labour Party had no exclusive right of ideas for social policies as many of these ideas also stem from a liberal tradition. The close relationship between liberals and the Labour Party – or at least a significant part of it – became also obvious in the merger of the right Labour split off group SDP and the Liberal Party to form the Liberal Democrats. In the early

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<sup>299</sup>

Freeden, Michael (1999): True Blood or False Genealogy: New Labour and British Social Democratic Thought, *The Political Quarterly*, special edition on 'The New Social Democracy', p. 151.

years of Tony Blair's leadership, this relationship received special attention due to the similar political programmes and a strong personal relationship between Blair and Ashdown. The renewal of the Labour Party under Blair was a liberal renewal but it can be seen as in the general political tradition of the party at the same time.<sup>300</sup> The Labour – Liberal Democrat relationship between 1994 and 1997 provides further evidence for the strong liberal tendency in the Labour Party.

A second question that needed to be addressed was concerned with the relationship between the US Democratic Party and Labour. This chapter showed that also before the establishment of New Labour, American politics and especially the Democratic Party had influence on the politics of the Labour Party. Especially the generation of 'Revisionists' was influenced by American input as for instance Anthony Crosland's work showed. However, the scale of influence reached a climax under the leadership of Tony Blair and Labour's transformation into New Labour. Via numerous channels and contacts - formal as well as informal - , the New Democratic Third Way became the dominating influence in Labour's transformation process.

Nonetheless it is important to clarify that by no means was Tony Blair the only person responsible for the profound renewal process in the Labour Party. Taking into account that also Gordon Brown (and some top aides) played an important role, it was Neil Kinnock who started the far reaching reform of the party. Shifting internal party power towards the leadership and moving Labour towards the political centre ground was his legacy that also inspired the New Democrats in setting up their own renewal process. Both party's reform desire were driven by electoral misfortunes. In Kinnock's

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See also Diamond, Patrick (2004): New Labour's old roots. Revisionist Thinkers in Labour's history 1931 – 1997, Imprint Academic, Exeter.

Policy Review, Peter Mandelson as Director of Communications also played a major role in adjusting the party in order to be electorally successful.

The study of the repositioning process under Blair also provides some important insights. First, there was a division of perspective between Tony Blair and Gordon Brown. The former was clearly focused on how to get elected whereas the latter was deeply concerned about the policies and political instruments incorporated in the Democrats' Third Way.

Labour's Third Way was portrayed as a synthesis of socialism and liberalism. In this thesis, there is a distinction made between the Third Way in party renewal processes and the Third Way in governmental politics. Given the broad appeal of the Third Way set of values with its huge space for interpretation, one must conclude that the Third Way the Labour Party adopted in their party renewal was 'emulated' from the New Democrats according to Richard Rose's categories of policy learning outlined in Chapter 2. The 'copy' category is not appropriate as the Labour Party organisationally is a very different beast than the US Democrats and internal party reforms that must be seen in the framework of the partisan Third Way were necessary in order to centralise more power. It is a distinct feature of the Third Way of the Democrats and Labour that it is a project of political elites and not of the grassroots. In order to impose the Third Way on the respective party, a power centre is necessary. In the case of the Democrats in the US, the victory in the primaries was the means to impose the New Democrat ideas on the party. As regards the Labour Party, it took more inner-party reforms such as strengthening the NPF and the setting up of the JPC later on to generate the institutional framework for the programmatic changes introduced by the Third Way.

It is crucial to keep on stressing the reason why the Third Way was developed and to emphasise its overall aim. It was developed in the wake of a series of unsuccessful elections with the central aim to improve electoral fortunes. The repositioning of the Labour Party described in this chapter was clearly adjusted to this overall objective. In that sense, one can argue that the partisan Third Way in the Labour Party (and also the Democrats) was after all essentially an electoral strategy rather than the result of more traditional policy adjustment.

As regards Stephen Wolinetz' three polar categorisation of a political party, the Labour Party moved considerably from a more policy seeking party that it was in the early 1980s<sup>301</sup> to a more and more vote seeking party whose overall aim was to regain political power. The power wish dominated the party's behaviour.<sup>302</sup>

In concluding, having examined the cases of the New Democrats and New Labour, there are certain characteristics of the partisan Third Way that can be summarised:

- It is essentially an electoral strategy developed by a political elite
- This political elite needs to acquire power – through centralisation - in and over the party in order to implement this strategy.
- The value basis as core message of the Third Way is intentionally vague and leaves much space for interpretation. The core messages must not deprive potential voters
- The broad core messages result in very vague statements as regards policy means. Good policy is what works. This is also due to the fear to draw a clear

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<sup>301</sup> The Labour Party was clearly primarily concerned about a political agenda in the early 1980s. The electorate should be convinced to support their policies such as the alternative economic agenda.

<sup>302</sup> Or as Peter Mandelson put it at the 2003 Progressive Governance Conference in London: 'We are useless unless we are in power'.

line where the electorate would potentially be divided into winners and losers.

This becomes very clear in the stressing of the concept of 'equality of opportunity' and the playing down of 'redistribution'. Equality of opportunity is in the political rhetoric<sup>303</sup> not a zero sum game which means it does not necessarily produce any losers. Redistribution on the other hand means taking wealth from somewhere and transferring it to another place. This is a zero sum game which produces people who have to pay.

- The partisan Third Way that was developed in the United States is not a social democratic concept. It is above all a liberal concept
- The special situation and history of the Labour Party with its numerous close links to liberalism made it possible to implement the Third Way in the Labour Party as a renewal based on the party's tradition

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although Giddens rightly pointed out that this is not the case.



# Chapter 5

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## The 'New Centre' - The SPD's Third Way in Historical Perspective

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### ***Introduction***

The Partisan Third Way characteristics listed at the end of the last chapter are a crucial basis for the evaluation of the Third Way experience in the SPD. On a time scale, these characteristics had already developed before the SPD's Third Way variant 'New Centre' became prominent in the party's discourse. In order to be comparatively clear and work out differences in the political circumstances and the resulting consequences, this chapter requires a very similar approach to the last one.

Providing the crucial insights of historic analysis, this chapter will also start addressing the development of the SPD guided by the same crucial questions as the analysis of the Labour Party in the last chapter: what is the SPD's historic relationship to liberalism? And what characterised party renewal phases, especially revisionism?

As there have been no significant contacts between the SPD and the New Democrats this question does not need to be addressed explicitly here. Other than a few conference attendances of social democratic academics there was neither a formal nor a significant informal network in place before the election of Gerhard Schröder in 1998.<sup>304</sup>

The first part of this chapter will cover, guided by the questions set out above, the time from the SPD's early days until the election defeat in 1994. Of course, the historic analysis, covering two world wars and German re-unification alone in the 20<sup>th</sup> century, can only be a brief sketch and focus on the points that are most relevant for the argument of this thesis.

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See Dieter Dettke, interview by author, 22<sup>nd</sup> June 2004.

The second part of this chapter will deal in more detail with the programmatic development of the SPD between 1994 and 2005, when the Schröder chancellorship came to an end. It will focus on the same aspects analysed in the Labour case: what was the nature of programmatic development and what was the driving force behind it? The chapter will be concluded by comparing the experience of the SPD with the one of the British Labour Party and round up the definition of what has to be understood under the dimension of the 'partisan Third Way' based on the example of both parties. This final characterisation then provides the first point of reference for the analysis of the governmental experiences of Labour and the SPD in Chapters 6 and 7.

### **5.1     The Political Development of early Socialism in Germany until 1890**

As Stefan Berger argues in his comparison between the SPD and the British Labour party, the dominant view in comparative history is that both parties have been very different beasts. He also stresses however, that a weak point of many comparisons lies in the synchronic approach of comparison, especially in the era pre 1914, as the parties were at different stages of their development.<sup>305</sup> For instance a strong trade union movement that in Britain, as explained in the last chapter, was one of the reasons why the British Labour Party did not develop significant revolutionary tendencies and was founded as late as 1900, was not in place in Germany at the time. Also, the different national circumstances led to a development of Labour and the SPD that, if compared, does not only show different stages but also different directions.<sup>306</sup>

The birth of the labour movement in Germany was to a large degree the product of the societal circumstances in 19<sup>th</sup> century Germany. Especially the advancement of Manchester Liberalism and the dissolution of the feudal society were eminent determinants. The 'social question' also became the dominant societal problem in Germany as industrialisation made its way from England to the Continent. In contrast to England however, Germany lacked a trade union or political labour movement until the revolution of 1848. This was on the one hand due to the later beginning of industrialisation in Germany, but had also roots in the way the German government oppressed political activities.<sup>307</sup>

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<sup>305</sup> See Berger, Stefan (1994): The British Labour Party and the German Social Democrats 1900-1931. A comparative study, Clarendon Press, Oxford, p. 16.

<sup>306</sup> See See Sassoon, Donald (1997): One Hundred Years of Socialism: The West European Left in the Twentieth Century, Fontana Press, London, pp. 9 sqq.

<sup>307</sup> See Miller, Susanne, Heinrich Potthoff (1991): Kleine Geschichte der SPD. Darstellung und Dokumentation 1848-1990, Dietz, Bonn, pp. 21 sqq.

It was only after the failed revolution of 1848, in which labourers fought at the front line, that the first labour societies were founded in the form of educational leagues. The time after the revolution was also the starting point of the diversion between the emerging socialist and liberal forces. The new labour societies stuck to the objectives of the failed revolution, whereas they perceived an appeasement between liberals and reactionary forces. Ferdinand Lasalle, the founder of the *Allgemeiner Deutscher Arbeiterverein* (ADAV) established in 1863, which is seen as the birth of German social democracy, put it in bold words in his remarks about the liberal party *Fortschrittspartei*:

*Und indem sie, statt die Regierung auf den offenen unverhüllten Absolutismus hinzudrängen und das Volk durch die Tat über das Nichtvorhandensein eines verfassungsgemässen Zustandes aufzuklären, einwilligt, ihre Rolle in dieser Komödie des Scheinkonstitutionalismus weiterzuspielen, hilft sie einen Schein aufrechtzuerhalten. (...) Eine solche Partei hat gezeigt, dass sie eben dadurch vollkommen unfähig ist, auch nur die geringste reelle Entwicklung der Freiheitsinteressen herbeizuführen.*<sup>308</sup>

In the same speech and based on this analysis of the liberal party, Lasalle argued for a more political labour movement and not just limiting the organisations to educational purposes.

The time between 1848 and 1863 already revealed deep cracks between the labour movement and liberalism in Germany. Lasalle's fight against the liberals also showed differences between the social democrats and the communist ideas of Marx

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Lasalle, Ferdinand: Offenes Antwortschreiben an das Zentralkomitee zur Berufung eines allgemeinen deutschen Arbeiterkongresses zu Leipzig 1863, in: Dowe, Dieter, Kurt Klotzbach (eds.) (1984): *Programmatistische Dokumente der deutschen Sozialdemokratie*, Dietz, Bonn, pp. 114 sqq.

Own translation:

Because it (*Fortschrittspartei*) does not pressure the government with its open and undisguised absolutism and does not actively inform the people about the non-existence of real constitutional circumstances, it accepted to play its role in this comedy of faked constitutionalism, and helps to maintain an illusion. Such a party has shown that by doing so, it is completely incapable to bring about even the smallest real development of freedom.

and Engels. Marx criticised Lasalle for not uniting with the liberals – what Lasalle did not see this way as the above quote suggests - to fight against the reaction. Emerging from this difference of opinion was also the difference of attitude between Marx and Lasalle as regards the role of the state. Lasalle's view was that fighting for power within the state was the most effective way to address the 'social question', whereas Marx saw the state as part of the oppression. However, as Susanne Miller and Heinrich Potthoff made clear, this was not, as sometimes argued, an ideological break between social democracy and communism. The fundamental objectives largely remained the same. This disagreement about the role of the state was rather the beginning of the well known difference between radical rhetoric and reformist practice, also prominent in other social democratic parties.<sup>309</sup>

The association of educational labour leagues (*Verband Deutscher Arbeitervereine*) was another place, where the break with liberalism became apparent and where a second strand of German social democracy developed. The *Verband Deutscher Arbeitervereine* was in contrast to the ADAV a federal association that in its early days remained dominated by the liberal citizenry. Wilhelm Liebknecht, who emigrated to London after the failed revolution of 1848 and there became a close friend of Karl Marx, and August Bebel, who would shape social democracy in the decades to come, were the main agents of the emancipation and 'politisisation' of the labourers organised in the *Verband Deutscher Arbeitervereine*. Bebel, who replaced the liberal Max Hirsch as chairman of the organisation, promoted the change to a political organisation.

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<sup>309</sup>

See Miller, Susanne, Heinrich Potthoff (1991): *Kleine Geschichte der SPD. Darstellung und Dokumentation 1848-1990*, Dietz, Bonn, pp. 33 sqq.

In Eisenach in 1869, the association was transformed into the *Sozialdemokratische Arbeiterpartei* and the second labour party in Germany was established. As regards programmatic direction there was little difference in the fundamental aims and objectives. The *Sozialdemokratische Arbeiterpartei* too saw the 'social question' inextricably linked to the development of politics in a democratic state. Although both early labour parties pursued a different approach towards the scope of such a state (*Großdeutsche vs. Kleindeutsche Frage*) the main differences were of organisational nature. The *Sozialdemokratische Arbeiterpartei* was a democratic organisation based on a bottom-up approach whereas the ADAV was organised in 'plebicit dictatorship'<sup>310</sup> run by Ferdinand Lasalle and also his successor von Schweitzer, who succeeded Lasalle after his death in a duel about a woman in 1864.

In 1875 eventually, both parties merged after sometimes fierce competition between them in the years before. The resignation of von Schweitzer made the merger easier but it was most of all the state oppression by the newly founded German Reich and the emerging economic crisis that paved the way to the unification of the labour parties.

The constitution and the basic programme of the new party was again heavily criticised by Marx as it included various concessions going back to Lasalle's ideas, whose ADAV had the majority of delegates at the founding conference in Gotha.

Especially the abolishment of wages to overcome the *eherne Lohngesetz*<sup>311</sup> and the idea that compared to the working class, the rest of society was reactionary

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<sup>310</sup> Ibid. p. 40.

<sup>311</sup> Economic idea about wages based on David Ricardo. The, in the meantime falsified, *eherne Lohngesetz* meant that wages would not rise to more than is absolutely necessary to maintain minimal health and living standards.

triggered harsh criticism by Marx.<sup>312</sup> In his criticism of the Gotha Programme, with which Marx did not want to be associated in any way, he argued that Lasalle's idea of trying to overcome the *eherne Lohngesetz* by abolishing paid work was too short sighted as an abolition would ultimately not change the natural law – the *eherne Lohngesetz* – itself but only hide it. In Marx' view the authors of the programme did not understand that it was the whole of the capitalist production process – and not just wages – that forced workers into economic slavery. In effect, Marx portrayed this policy as another example that socialism can only universalise and spread burdens throughout society, but it is unable to eradicate the nature-given plight of the working class.<sup>313</sup>

Wilhelm Liebknecht also put his stamp on the programme. He was seen as the most reliable connection for Marx and Engels in Germany but included ideas in the programme that differed considerably from Marx. In sum, the programmatic foundation of the unified labour party *Sozialdemokratische Arbeiterpartei* was all but a coherent ideological construct. Given the difficult situation in Germany at the time, it were more practical than ideological concerns that dominated the political discourse of the labour movement.

The unification of 1875 also finally closed the door to liberalism. Despite some regional liberal associations and ecclesiastical endeavours to address the 'social question', there was no 'progressive alliance' in Germany as there was in England. The political development of the German Reich, especially the *Sozialistengesetze*<sup>314</sup> that

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<sup>312</sup> See Miller, Susanne, Heinrich Potthoff (1991): Kleine Geschichte der SPD. Darstellung und Dokumentation 1848-1990, Dietz, Bonn, p. 41.

<sup>313</sup> Marx, Karl, Friedrich Engels (1973): Werke, Dietz, Berlin, p.25

<sup>314</sup> Law against the 'social democratic objectives that are dangerous for public safety'.



were passed with the help of the national-liberals in the *Reichstag*, produced a deep cleavage between social democratic and liberal forces.

It were two aspects which provided a starting point for Bismarck to introduce the hostile legislation against social democrats. First, the untrue construction of a link between social democracy and an assassination attempt on emperor Wilhelm and second the sympathy for the defeated 'Paris Commune' publicly shown by August Bebel in a *Reichstag* speech. After the speech by Bebel, Bismarck claimed 'that this speech had opened his eyes to the subversive nature of Social Democracy and the threat it poses to the state.'<sup>315</sup> In effect, the *Sozialistengesetze* prohibited most social democratic organisations and political action. The only remaining legal organisation was the *Reichstag* group that eventually took over much of the work the party had formerly done.

The oppression via the *Sozialistengesetze* led to two apparently contradictory developments. On the one hand the laws strengthened the revolutionary rhetoric within the party as the laws portrayed how the state can be part of the problem rather than the solution and can obstruct the liberation of the working class. On the other hand, it shifted power within the labour movement towards its parliamentary group, not just because it took over much of the party work but also because the main objective of the *Sozialistengesetze* failed. They were designed to bring down social democracy but all they achieved was to reveal that one cannot legislate away a social and political movement with deep societal roots as the continuous electoral successes showed. In effect, these electoral successes strengthened the reformist forces in German social democracy that thought the conquering of political power in parliament

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Miller, Susanne, Heinrich Potthoff (1986): *A history of German Social Democracy. From 1848 to the present*, Berg, New York, p.32.

was the right way to gain the position to change society for the better. Hence, the *Sozialistengesetze* helped to deepen the cleavage between revolutionary rhetoric and reformist practise.<sup>316</sup>

What the early development of socialism in Germany showed is the early and deep division between socialism and liberalism. Due to the nature of the state after the failed revolution of 1848 and the founding of the German Reich in 1871 there was no 'progressive alliance' as there was in the more liberal British state. Also the emergence and widening of the gap between revolutionary aspirations and reformist practise was evident. If one equals political rhetoric with consciousness and political circumstances with social being based on Marx' assumption that 'it is not the consciousness of men that determines their being, but, on the contrary, their social being that determines their consciousness', the political development of early German social democracy is certainly an example for this relationship. In this case however, early German social democracy showed that even if political circumstances to a degree determine the political rhetoric, there can still be a large gulf between rhetoric and practise.

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<sup>316</sup>

See *ibid.* p. 37.

## 5.2 German Social Democracy from Erfurt until World War Two

After the resignation of Bismarck and the fall of the socialist laws, German social democracy was able to reinstate a party structure. At the Erfurt conference in 1891, the social democratic party adopted the name it still has today *Sozialdemokratische Partei Deutschlands* (SPD)<sup>317</sup>. The Erfurt conference became famous however for the adoption of a new party programme that should precede the fundamental ideological row that later became known as 'Revisionist Debate'.

The programme was written by the two renowned social democratic theorists Karl Kautsky and Eduard Bernstein. Kautsky wrote the first part of the document in a clearly Marxist tone. It repeated Marx' economic analysis of the crises capitalist production cause. The transition of all means of production into communal ownership was described as a necessity to free the working class from its capitalism induced plight.<sup>318</sup> In contrast to this, the second part of the programme does not express radical politics about inevitable revolutions. Moreover Bernstein, the author of the second part, outlined a policy programme relevant for the day to day political work of the SPD. Policies such as universal, equal and direct suffrage, the abandonment of all obstructions to freedom of speech, a maximum of eight working hours a day, and progressive taxation of income, inheritance and assets were among the detailed policy prescriptions of the second part of the programme.<sup>319</sup>

Consisting of two completely different parts, the Erfurt Programme was an ambivalent document that provided a foundation for very different political strands. Frederick Engels saw the programme, written eight years after Karl Marx' death, as the

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<sup>317</sup> Social Democratic Party of Germany (SPD)

<sup>318</sup> See Programm der Sozialdemokratischen Partei Deutschlands, beschlossen auf dem Parteitag in Erfurt 1891, in: Dowe, Dieter, Kurt Klotzbach (eds.) (1984): Programmatische Dokumente der deutschen Sozialdemokratie, Dietz, Bonn, pp. 188 sqq.

<sup>319</sup> See Ibid, pp. 190 sqq.

final establishment of Marxist ideas after a long period of tensions between Marx and the party. At the same time, the one and the same programme could also be interpreted as emphasising parliamentary democracy and the potential of social achievements in a parliamentary system. Even though the programme was divided it was accepted without much debate and almost no changes at the Erfurt conference.

The fall of Bismarck and the socialist laws did not mean the complete end of the oppression of social democrats. Trials for *lese majesté*, laws on associations and legislation proposals such as the 'Subversion Bill' (1894-1895) and the 'Prison Bill' (1898-1899) created further difficulties for German social democracy. Nevertheless, the circumstances of the SPD in the *Kaiserreich* had changed for the better leading to the questioning of existing political tactics and strategies.<sup>320</sup> The changed political circumstances and the ambivalent programme of the SPD eventually lead to a much more fundamental discussion about social democratic means and ends summarised under the term 'Revisionism Debate'.

Early public statements that paved the way for 'Revisionism' were the 'El Dorado' speeches by Georg von Vollmar<sup>321</sup>, in which he called for a decided programme of reform. The reform agenda he had in mind should be oriented at the given governmental system and allow for cooperation with other progressive forces rather than putting potential allies off by revolutionary rhetoric. This strategy must be seen against the backdrop of parliamentary reality at the time. Even in the heated times of the ideological battle about 'Revisionism', that were still to come, parliamentary practice of the SPD continued to be uniform. There were no different

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<sup>320</sup> See Miller, Susanne, Heinrich Potthoff (1986): A history of German Social Democracy. From 1848 to the present, Berg, New York, p. 45.

<sup>321</sup> He himself was a former radical.

approaches that separated a Marxist and a 'Revisionist' wing. This was not surprising given that the radical wing did not see parliamentarism as a strategy in itself but as instrumental on the way to the inevitable revolution. Georg von Vollmar's suggested changes that were based on the fact that the social democrats were isolated in parliament as well as in society. So, part of the 'revisionist' strategy was the opening up of social democracy to potential allies.<sup>322</sup>

'Revisionism' as a term became associated with Eduard Bernstein, who was leading the ideological attack on some core fundamentals of Marxism. Having been based in London since 1887, after Bernstein had to leave his first exile Switzerland to continue his job as editor of the SPD party newspaper *Der Sozialdemokrat*, Bernstein developed his 'Revisionism', most comprehensively outlined in his book *The Preconditions of Socialism*. Bernstein's analysis, largely based on a new examination of capitalism in Britain and to a degree Germany, challenged the core assumption of Marxism that the working class increasingly impoverishes in a capitalist society and that the overthrow of the capitalist system by a revolution of the working class was the only way to improve the living conditions of workers. In contrast to this, Bernstein's view was that a practical reform agenda can bring substantial improvements for the working class without the necessity of a revolution. His conclusion about the British Labour Party summarised his approach aptly:

And if anyone wishes to bring against me the progress Social Democracy has achieved in England [...], I reply that this expansion has been accompanied, and made possible, by English Social Democracy's development from a utopian-revolutionary sect, as Engels himself repeatedly represented it to be, into a party of practical reform. In England nowadays, no responsible socialist dreams

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<sup>322</sup>

See *ibid.*, pp. 67 sqq.

of an imminent victory for socialism through a great catastrophe; none dreams of a quick seizure of Parliament by the revolutionary proletariat.<sup>323</sup>

London, as Bernstein's place of work, played an important role in the development of 'Revisionism'.<sup>324</sup> He was impressed and enquiring about British social democracy, which operated in the circumstances of a much more liberal state. In many policy matters, he took a position that was very close to the Fabian Society and suggested that German social democrats had to learn a lot from the British experience.<sup>325</sup>

Bernstein's argument amounted to the first comprehensive attack on Marxist analysis and historic determinism and was thus challenging the ideological base of the party. On a theoretical level, the 'Revisionist Debate' was largely about the nature and role of the state. Marxism itself provided the starting point for this criticism. The rudimentary lessons on the state that scientific Marxism provided were simply not sufficient as a compass for political action. Therefore the practice and experiences of political leaders, even from the radical wing, forced a different, more positive, attitude towards the state upon them.<sup>326</sup> In theoretical terms, however, 'Revisionism' did not bring the breakthrough to a completely revised understanding of the role of the state. As the first SPD chairman after World War II Kurt Schumacher remarked, the shift of attitude towards the state in 'Revisionism' was utilitarian in nature and did not

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<sup>323</sup> Tudor, Henry (1993): Bernstein. The preconditions of Socialism, Cambridge University Press, Cambridge, pp. 191 sqq.

<sup>324</sup> See Hirsch, Helmut (1978): Die bezüglich der Fabian Society transparenten Kommunikationsstrukturen als Teilaspekte der internationalen Voraussetzungen zur Herausbildung des Revisionismus von Eduard Bernstein, in: Heimann, Horst, Thomas Meyer (eds.): Bernstein und der Demokratische Sozialismus. Bericht über den wissenschaftlichen Kongreß „Die historische Leistung und aktuelle Bedeutung Eduard Bernsteins“, Dietz, Berlin, pp. 47 sqq.

<sup>325</sup> Tudor, H., J.M. Tudor (1988): Marxism & Social Democracy. The Revisionist Debate 1896 – 1898, Cambridge University Press, Cambridge, p. 11.

<sup>326</sup> See Schumacher, Kurt (1973): Der Kampf um den Staatsgedanken in der deutschen Sozialdemokratie, Kohlhammer, Stuttgart, p. 83.

represent a new, positive state theory. Bernstein's argument in essence was only a critique of a critique. A positive theory of the state however was not in sight.<sup>327</sup>

In the years around 1900, 'Revisionism' triggered a hard reaction by the leading Marxist establishment of the party including people like Karl Kautsky, Rosa Luxemburg, and August Bebel. The reaction against Bernstein's 'Revisionism' reached its peak at the Dresden party conference of 1903 when the following statement was accepted:

*Der Parteitag verurteilt auf das entschiedenste die revisionistischen Bestrebungen, unsere bisherige bewährte und siegesgekrönte, auf dem Klassenkampf beruhende Taktik in dem Sinne zu ändern, daß an der Stelle der Eroberung der politischen Macht durch Überwindung unserer Gegner eine Politik des Entgegenkommens an die bestehende Ordnung der Dinge tritt.*<sup>328</sup>

The 'Revisionists' did not win the ideological argument and remained a minority force in the party. The debate about 'Revisionism' however was far from over.

The time between the beginning of World War I and the end of World War II is probably the most eventful period in recent German history. Therefore, the study of German social democracy in these years conducted here can only comprise essential developments and is bound to omit a description of the societal circumstances, that are generally important for social democratic evolution, for the sake of a focussed argument. The societal backdrop must be largely faded out here but the political direction of the SPD is vital for the understanding of its overall political tradition.

The SPD's attitude towards war was that a defensive armed conflict can also be accepted by socialists. If the nature of the war was to change however so can the

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<sup>327</sup>

See *ibid.*, p. 85.

<sup>328</sup>

Resolution gegen die revisionistischen Bestrebungen, beschlossen auf dem Parteitag der SPD in Dresden 1903, in: Dowe, Dieter, Kurt Klotzbach (eds.) (1984): Programmatische Dokumente der deutschen Sozialdemokratie, Dietz, Bonn, p.194.

Own translation:

The conference most decidedly condemns revisionist tendencies that seek to change our approved and victorious tactics based on the class war in a way that accommodates the current political order rather than conquering it by overpowering our opponents.

position of the social democratic party. When World War I broke out, the SPD stood by the government as it defined the beginning war as defensive against the threat of hostile invasions. Over the course of the armed conflict the assumption of its defensive nature became more and more criticised. This question eventually led to the division of the party into the Majority Social Democrats (MSPD) and the Independent Social Democrats (USPD)<sup>329</sup>, the latter refusing any further warfare credits. Another group, which formally belonged to the USPD, was the Spartacus League lead by Rosa Luxemburg and Karl Liebknecht. The Spartacists wanted to take advantage of the political instability and openly pursued the proletarian revolution.<sup>330</sup>

The first German democracy, the Weimar Republic, was constituted after the end of World War I and started with heavy burdens resulting from the Treaty of Versailles. From the beginning, the SPD saw its own role as political safeguard of the young democracy against the threats from the radical left and right. The Kapp-Putsch of 1920 and Hitler's overthrow attempt of 1923 are only two examples of political unrest in the very volatile years of the Weimar Republic. By joining the temporary government of Max von Baden, the SPD gave evidence of their commitment to the maintenance of democracy and at the same time broke with its tradition as opposition party.<sup>331</sup>

Aiming at stabilising the young democracy the SPD, which led the first elected government<sup>332</sup> under Friedrich Ebert after Emperor Wilhelm II finally abdicated, formed a coalition with the *Fortschrittliche Volkspartei* (FVP) and the *Zentrum*. To maintain order, the government was forced into alliances with reactionary

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<sup>329</sup> The USPD included people like Hugo Haase, Eduard Bernstein and Kurt Eisner

<sup>330</sup> See Eichler, Willi (1962): *100 Jahre Sozialdemokratie*, J.D Küster, Bielefeld, pp. 38 sqq.

<sup>331</sup> See Hunt, Richard N. (1964): *German Social Democracy 1918-1933*, Yale University Press, New Haven, pp. 27 sqq.

<sup>332</sup> including participation by the USPD



bureaucrats and military groups which themselves were not very democratic in nature but seemed instrumental in fighting the threads of an overthrow.

This cooperation came at a high price. The radical left finally abandoned the USPD and formed the *Kommunistische Partei Deutschlands* (KPD) which also was one reason for the SPD's worsening election results. The murders of Rosa Luxemburg and Karl Liebknecht<sup>333</sup>, committed by reactionary *Freikorps*<sup>334</sup> that smashed their insurrection in Berlin in 1919, finally generated a insurmountable cleavage between the SPD and the radical left.<sup>335</sup>

Even after the SPD lost power in the Weimar Republic, it continued to focus on the maintenance of democracy and supported the government on several occasions. The turbulent political circumstances obviously limited the SPD's scope of action. They also revealed however a few remarkable facts. When the SPD had the opportunity to enforce a wide ranging communitisation of the means of production, it did not do so as the leadership feared that this would undermine their primary aim of democratic stability. Instead, the SPD led government pursued politics of social reform. Also, the theoretical debate within the party, that was so vivid during the 'Revisionist Debate', only took place among fringe groups and thus was almost non-existent.<sup>336</sup>

At the Heidelberg conference of 1925, the party accepted a programme that clearly emphasised the need for democracy as prerequisite to realise its political

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<sup>333</sup> Committed four days before the elections when the SPD was still part of the provisional government

<sup>334</sup> *Freikorps* were part of the militant groups the SPD had to cooperate with to 'maintain' democracy

<sup>335</sup> See *ibid.*

<sup>336</sup> See Miller, Susanne, Heinrich Potthoff (1986): A history of German Social Democracy. From 1848 to the present, Berg, New York, p. 97.

aims.<sup>337</sup> As Richard Hunt argued, this was also a further step in the SPD's gradual

development as democratic party:

Since its inception in 1863 the SPD had advocated political democracy. The establishment of the Weimar constitution in 1919 marked the [...] most profound step in the Social Democrats' transformation from opposition party to government party. In or out of office, the SPD was determined to protect the Republic, while at the same time pursuing, through the democratic process, its major socialist aims.<sup>338</sup>

In the fourteen years of the Weimar Republic, the SPD shaped politics from after the revolution in 1918 until 1920 and again from 1928 to 1930. The party reunited when the remaining moderate wing of the USPD rejoined in 1922. The SPD was mainly concerned about saving democracy and enacting a social reform agenda in office that provided universal suffrage, deepened societal democratisation, and made trade unions a relevant player. Any further measures such as the nationalisation of production should be done only if there was a clear democratic mandate to do so.<sup>339</sup>

The party's position towards parliamentary democracy yet remained ambiguous as the historian Hans Mommsen argued:

*Die Klage Gustav Radebruchs<sup>340</sup>, daß die Partei die Demokratie 'nur als Leiter zum Sozialismus empfindet, die dann beiseite geschoben wird, sobald man den Sozialismus erstiegen hat' während sie in Wahrheit 'die große, bereits verwirklichte und in jedem Augenblick neu zu verwirklichende Hälfte ihres Programms' darstelle, beleuchtet die ambivalente Haltung der Partei zur parlamentarischen Demokratie, die als wenig attraktive Übergangsstufe erschien, welche es aus taktischen Gründen zu verteidigen galt.<sup>341</sup>*

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<sup>337</sup> See Programm der Sozialdemokratischen Partei Deutschlands, beschlossen auf dem Parteitag in Heidelberg 1925, in: Dowe, Dieter, Kurt Klotzbach (eds.) (1984): Programmmatische Dokumente der deutschen Sozialdemokratie, Dietz, Bonn, pp. 215 sqq.

<sup>338</sup> Hunt, Richard N. (1964): German Social Democracy 1918-1933, Yale UP, New Haven, pp. 33 sqq.

<sup>339</sup> See Eichler, Willi (1962): 100 Jahre Sozialdemokratie, J.D Küster, Bielefeld, pp. 49 sqq.

<sup>340</sup> Minister of Justice in the Weimar Republic

<sup>341</sup> Mommsen, Hans (1974): Die Sozialdemokratie in der Defensive: Der Immobilismus der SPD und der Aufstieg des Nationalsozialismus, in: Mommsen, Hans: Sozialdemokratie zwischen Klassenbewegung und Volkspartei, Fischer, Frankfurt, p. 111.

Own translation

Gustav Radebruch complains that democracy is only seen as a ladder to socialism that is pushed aside once it is realised whereas in reality democracy is the great, already realised half, of social democracy's programme. This sheds light on the ambivalent position of the party

This argument very eloquently displays the fundamental conflict of the difference between political practice and ideology. In the Weimar Republic, the SPD was already a party of parliamentary democracy rather than a revolutionary force.

The democratic system however was not strong enough to liberate itself from the relics of the Second Reich. Paul von Hindenburg's election as President after the death of Friedrich Ebert in 1925 was a sign for this. And anti-democratic forces abused the new freedoms of the Weimar Republic to plot against the new democratic order.<sup>342</sup>

When National Socialism started its rise, an argument about what the right reaction would be broke out amongst social democrats. It was not a deep ideological debate but moreover an open dispute about what sort of political action should be taken to battle the advancement of the Nazis. Given the party's goal of stabilising the volatile democracy, its leadership could not agree on radical measures, not even after the *coup d'état* of van Papen in Prussia revealed the direct threat to democracy. The SPD was trapped between the fight for social justice in a capitalist system and the fight against the dawning National Socialism.<sup>343</sup>

Otto Wels, the SPD chairman, gave a speech in parliament that became a milestone of the social democratic resistance. He declared the SPD group's rejection of Hitler's enabling act in 1933. At this time, political oppression was already widespread and Wels himself received death threats even during his speech. This parliamentary speech was one of the great statements of humanity and against fascism. In retrospect, Wels' continued comparison of Nazi oppression with the socialist laws of

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towards parliamentary democracy, which is seen as a rather unattractive transition stage that needs to be maintained for tactical reasons.

<sup>342</sup> Eichler, Willi (1962): *100 Jahre Sozialdemokratie*, J.D Küster, Bielefeld, pp. 53 sqq.

<sup>343</sup> See Miller, Susanne, Heinrich Potthoff (1991): *Kleine Geschichte der SPD. Darstellung und Dokumentation 1848-1990*, Dietz, Bonn, pp. 138 sqq.

Bismarck revealed how even at this stage the brutality and scope of National Socialism was underestimated.<sup>344</sup>

Social Democrats were amongst the many victims of the Nazi regime that were hunted, imprisoned, tortured and killed. The party leadership had to go into exile and from the outside tried to help the resistance in Germany and make public to the rest of the world the nature and ruthlessness of the Hitler dictatorship. They could not prevent the worst.

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<sup>344</sup>

See *ibid.*, p. 146.

### 5.3 Social Democracy in the FRG until German Reunification

After World War II, the SPD was re-founded at the Hanover conference, where the exile executive from London and the leading social democrats that stayed in Germany during the Third Reich came together.<sup>345</sup> The level of German destruction, the occupation and division into four different zones with different regimes, and the simple fact that many active social democrats had died naturally or by force during the Hitler dictatorship set the conference an enormous task. Against this backdrop, it was no surprise that the meeting focused on organisational matters and left detailed programmatic discussions for a later conference. It was agreed in Hanover that a party conference with elected delegates should be called in as soon as possible to elect a new executive and determine a policy programme for the party.<sup>346</sup>

The bureaucracy that dominated the party in the Weimar years once again became very strong in the party. The party's first post-war chairman however became Kurt Schumacher, a rather young and not well-known party activist in the Weimar Republic, who never left Germany and suffered many years in prisons and concentration camps.<sup>347</sup>

A depiction of the SPD after the war as a replica of the Weimar party would not be correct though. The party was also permeable for new social democratic figures that did not have a distinct class background. People like the professors Carlo Schmid and Karl Schiller but also former left wingers such as Herbert Wehner and Willy Brandt

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<sup>345</sup> In the following, the history of the German Democratic Republic (GDR) is not concerned.

<sup>346</sup> See Executive Committee of the Social Democratic Party of Germany (1945): Rebirth of German Social Democracy. Report of the Socialdemocratic Party Conference in Hanover, on 5<sup>th</sup> to 7<sup>th</sup> October 1945, London, pp. 3 sqq.

<sup>347</sup> See Carr, William (1987): *German Social Democracy since 1945*, in: Fletcher, Roger (ed.): Bernstein to Brandt. A short history of German Social Democracy, Edward Arnold, London, p. 194.

found their way into the party. So, the SPD was largely run by the old bureaucracy but also included some of its fiercest former critics.<sup>348</sup>

The first era of the Federal Republic of Germany (FRG) was the Adenauer years. In this time, the Christian Democratic Union (CDU) was the undisputed natural party of government. The SPD on the contrary made the big mistake to disconnect itself from the realities in the new republic. The party leadership argued that the *Wirtschaftswunder*<sup>349</sup> was only a phoney miracle and stuck to a Marxist economic programme. Since the Erfurt Programme of 1891 the SPD had been seen as the role model Marxist party and it stuck to this image also after World War II. Until 1952 for instance the party advocated a socialisation programme of industries.<sup>350</sup>

Kurt Schumacher's very authoritarian leadership style – some even argued that he was the most dominant leader since Ferdinand Lasalle – played a crucial role in the SPD's problems in the young FRG. He was coined by his personal experience in World War I, where he lost one arm, and his time in Nazi concentration camps. As Lasalle, he was an intellectual and fervent speaker who demonstrated dominance. He was a power-hungry politician that did not want to compromise. This inability to compromise played a important role in the party's isolation in society.<sup>351</sup>

There are different interpretations in the academic literature about Schumacher's determination to reform his party. Some, like the historian Heinrich August Winkler, argue that Schumacher was keen to open up the SPD for new societal groups and follow the development to a catch-all party but it was the traditionalistic

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<sup>348</sup> See Walter, Franz (2002): *Die SPD. Vom Proletariat zur Neuen Mitte*, Alexander Fest Verlag, Berlin p. 125.

<sup>349</sup> Economic Miracle

<sup>350</sup> See Miller, Susanne, Heinrich Potthoff (1991): *Kleine Geschichte der SPD. Darstellung und Dokumentation 1848-1990*, Dietz, Bonn, pp. 179 sqq.

<sup>351</sup> See Walter, Franz (2002): *Die SPD. Vom Proletariat zur Neuen Mitte*, Alexander Fest Verlag, Berlin pp. 130 sqq.

party bureaucracy around his successor Ollenhauer that hindered him. Others argue that Schumacher himself was not committed to a fundamental opening of the party.<sup>352</sup> At any rate the SPD did not adjust well to the FRG and therefore had structural disadvantages.

After Schumacher's death in 1952, Erich Ollenhauer became party chairman. He was a completely different character that resembled more the party secretary than the people's leader. His leadership style however was more integrative than Schumacher's and he managed to close cleavages that his predecessor opened. He clearly lacked charisma and never had a realistic chance of breaking the CDU's dominance by winning a federal election. Ollenhauer brought back the bureaucratic leadership style of the Weimar Republic.<sup>353</sup>

Whether it was Ollenhauer's bureaucratic circle that prevented Schumacher's party opening or not, he himself as party chairman did not catch up with the CDU either. The CDU had already become a successful catch-all party that could bring together an electoral coalition from across society. Also Ollenhauer's personality clearly prevented him from having a realistic chance against the popular and political astute duo Adenauer/Erhard. It was not until 1957 and the CDU landslide victory with 50.2 per cent of the public vote that the reformist forces in the SPD developed the strength to change the party fundamentally.

The first step that was taken was a fundamental reform of the party organisation. The 'party bureau', the group of paid executives that ran the day to day business of the party, was blamed for the party's incapability to produce a chancellor

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<sup>352</sup> See Lösche, Peter, Franz Walter (1992): *Die SPD. Klassenpartei – Volkspartei – Quotenpartei*, Wissenschaftliche Buchgesellschaft, Darmstadt, p. 107.

<sup>353</sup> See *ibid.* pp. 134 sqq.

candidate with mass appeal. The bureau was perceived as traditionalistic obstacle to the adjustment of the party to new realities in the FRG. Therefore, it was abolished at the Stuttgart conference of 1958. Ollenhauer was re-elected as chairman but was henceforth contained by Herbert Wehner and Waldemar Freiherr von Knoeringen who were put to his side as elected vice chairmen representing different party wings. The 'bureau' was abolished completely and replaced by a steering committee (*Präsidium*) consisting of elected members from the party executive.<sup>354</sup>

The fundamental programmatic reform took place one year later when the famous *Godesberger Programm* was accepted. Under the influence of Willi Eichler, chairman of the *Programmkommission*<sup>355</sup>, Karl Schiller and Heinrich Deist, the SPD finally broke with Marxism and endorsed the market economy. The new economic doctrine goes back to Deist, himself a neo-revisionist, and disposed of any socialisation policies. 'Competition as far as possible – planning as far as necessary' became the new economic dogma.<sup>356</sup> The most remarkable feature of the *Godesberger Programm* is that it completely abandoned any *Weltanschauung* and political ideology. The SPD moreover subscribed to pluralist basic values:

*Freiheit, Gleichheit und Solidarität, die aus der gemeinsamen Verbundenheit folgende gegenseitige Verpflichtung, sind die Grundwerte des sozialistischen Wollens.*<sup>357</sup>

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<sup>354</sup> See Miller, Susanne, Heinrich Potthoff (1991): Kleine Geschichte der SPD. Darstellung und Dokumentation 1848-1990, Dietz, Bonn, p. 204.

<sup>355</sup> Programme Commission

<sup>356</sup> See Berger, Stefan (2004): The Labour Party and German Social Democrats (1945- 1994), in: Haseler, Stephen, Henning Meyer (eds.): Reshaping Social Democracy. Labour and the SPD in the New Century, European Research Forum at London Metropolitan University, London, p. 32.

<sup>357</sup> Grundsatzprogramm der Sozialdemokratischen Partei Deutschlands, beschlossen auf dem außerordentlichen Parteitag in Bad Godesberg 1959, in: Dowe, Dieter, Kurt Klotzbach (1984): Programmatische Dokumente der deutschen Sozialdemokratie, Dietz, Bonn, p. 364.

Own translation

Freedom, Equality and Solidarity, the mutual duty resulting from the mutual connection, are the basic values of socialist intend



This change in party philosophy was driven by the reformers that in many cases were in office on regional and local level. Ernst Reuter and Willy Brandt, both mayors of Berlin, were such figures. They did not accept that the SPD should remain an opposition party on the national level and fought for a party renewal that would reflect the changed societal circumstances in the FRG, most of all the opening of the party to new societal groups. This was a necessary step in the face of diminishing traditional party milieus. Thus, the *Godesberger Programm* marked two fundamental milestones for the SPD: the prevalence of revisionism over Marxism and the 'late arrival' in the new society of the FRG. Against the backdrop of the party history examined earlier in this chapter, *Bad Godesberg* was a break but not a new beginning. It was the finishing line of developments and learning processes that had begun long before 1959.<sup>358</sup>

In the 1960s, the SPD further progressed on its modernisation path and, as some commentators argue, cut all remaining connections to its own tradition. Even the *Godesberger Programm* played a secondary role. The reformist wing held the view that it still contained too many references to values and the 'good society' that could potentially constrain political action. The tensions between rhetoric and political practise, that had given the party much energy in the past, largely disappeared by the devaluation of the programme.<sup>359</sup>

After Ollenhauer's death the new chairman Willy Brandt became a symbol for the radically changed outlook of the party. He did not naturally use the traditional 'comrade' form of address and proclaimed 'community' and 'decency' as the

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<sup>358</sup> See Walter, Franz (2002): *Die SPD. Vom Proletariat zur Neuen Mitte*, Alexander Fest Verlag, Berlin p. 150 sqq.

<sup>359</sup> See *ibid*, pp. 160 sqq.

cornerstones of 'new style politics' rather than any social democratic basic values.<sup>360</sup>

The SPD wanted to portray itself as a potential party of government and moved very close to CDU positions. The party's slogan was 'we don't do everything differently, but we do it better'.<sup>361</sup> 'Modernity' was the new formula that abandoned party traditions. The SPD tried to establish itself as a party of political experts able to solve future political problems. The German party expert Franz Walter goes as far as arguing that after one hundred years of over-extensive ideological commitment the SPD became a largely unprincipled political organisation.<sup>362</sup>

Willy Brandt's *Ostpolitik* was the policy that allowed the party to develop a sharper profile compared to the CDU. It established the Social Democratic Party as the party of peace and gave it a distinction as junior partner in the first German grand coalition between 1966 and 1969. Furthermore the successful grand coalition, as Herbert Wehner, the social democratic driving force for the alliance has hoped, proved the social democrats' capability to govern. This evidence was very important for a potential SPD-led coalition government in future.<sup>363</sup>

Unsurprisingly after such a big shift of party organisation and policy, there was an inner-party counter reaction to the lack of emphasis on ideology in the party, especially from the 'young new left'.<sup>364</sup> This was the time in which Willy Brandt rose to the big unifying figure and party luminary. He had not always been a beloved party official as became obvious for instance when two party conferences in the 1950s did

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<sup>360</sup> See Miller, Susanne, Heinrich Potthoff (1991): *Kleine Geschichte der SPD. Darstellung und Dokumentation 1848-1990*, Dietz, Bonn, p. 213.

<sup>361</sup> See Walter, Franz (2002): *Die SPD. Vom Proletariat zur Neuen Mitte*, Alexander Fest Verlag, Berlin p. 160.

<sup>362</sup> See *ibid.*, p.162.

<sup>363</sup> See *ibid.*, p. 172.

<sup>364</sup> See Küpper, Jost (1977): *Die SPD und der Orientierungsrahmen '85*, Verlag Neue Gesellschaft, Bad Godesberg, pp. 21 sqq.

not elect him into the party executive. But at this time in the late 1960s, the *Ostpolitik* was generally accepted consensus and Brandt was the person who could hold the different party wings together.<sup>365</sup>

The election of Gustav Heinemann as German president opened up the opportunity for a coalition with the *Freie Demokratische Partei*<sup>366</sup> (FDP) in national government. This event helped to overcome the SPD's perception of the liberals as unreliable. After the election of 1969, the social-liberal coalition under Willy Brandt as Chancellor and Walter Scheel as Vice-Chancellor was formed.

In 1972, under the social-liberal coalition, the term 'New Centre' occurred for the first time in the SPD. Willy Brandt introduced it in order to forge a common political space for the social liberal coalition. However, he did not intend the 'liberalisation' of SPD nor the 'social democratisation' of the FDP. Moreover, it was an attempt to define the space covered by both parties. Brandt tried to portray his coalition in the tradition of the 1848 revolution, where, as examined earlier, socialists and liberals fought side by side.<sup>367</sup> As stated before, their coalition in the 1848 revolution did not last long. The governmental policies of the social-liberal coalition showed a relatively high degree of continuity in domestic affairs and the gradual development of Willy Brandt's *Ostpolitik* as the distinct social democratic project in foreign affairs.

In the early 1970s the sociological constitution of the party changed considerably as it attracted more and more societal groups without a traditional working class background. This in turn led to an increase in the number of party groups

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<sup>365</sup> See Walter, Franz (2002): *Die SPD. Vom Proletariat zur Neuen Mitte*, Alexander Fest Verlag, Berlin p. 175.

<sup>366</sup> Free Democratic Party

<sup>367</sup> See Brandt, Willy (1998): SPD und FDP in der Tradition von 1848, *Neue Gesellschaft/Frankfurter Hefte*, no.6, p. 496.

with different agendas, most notably the 'young left' that campaigned for a rebirth of socialism. In essence, the changing party sociology showed two things. First, the SPD had really become a catch-all party as claimed in the *Godesberger Programm* and second it revealed again, after the two Weimar governments, the difficulties and tensions between the party and a party-led government. It was due to the strong personalities of Herbert Wehner, Helmut Schmidt and most of all Willy Brandt, that these tensions did not cause more severe problems for the party.<sup>368</sup>

To prevent further political fights, Brandt declared the election victory of 1972, with 45.2 per cent the biggest victory in the SPD's history and the first time in the FRG that social democrats collected more votes than the CDU/CSU, as a victory for the social-liberal coalition. His intention was to make it absolutely clear that this overwhelming result was a mandate for the government's agenda and not necessarily for the party's positions. The policy ideas of the party almost naturally exceeded that of the incumbent government creating the mentioned political tensions. Thus it was not surprising that the party needed to open up space for a programmatic debate that forced the different party wings into a common process. Such a discussion process was initiated at the Hanover conference of 1973 and later became known as *Orientierungsrahmen '85*.<sup>369</sup>

Willy Brandt characterised the *Orientierungsrahmen '85*<sup>370</sup> as interface between the *Godesberger Programm* and day to day governmental politics. It was the most detailed but at the same time also most modest programmatic document the party had ever adopted. It was designed to provide guidance for the party as well as

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<sup>368</sup> See Miller, Susanne, Heinrich Potthoff (1991): Kleine Geschichte der SPD. Darstellung und Dokumentation 1848-1990, Dietz, Bonn, pp. 222 sqq.

<sup>369</sup> See *ibid*, p. 226

<sup>370</sup> Literally translated 'orientation framework '85'

for governmental politics for a limited period of time, until 1985. The framework's main focus was to put the party's basic values in relation to realistic policy prospects based on analyses of global circumstances. Hence the *Orientierungsrahmen* '85 was an attempt to fathom the politically possible and to contain ideological tensions caused by practical politics.<sup>371</sup>

When the programmatic framework was accepted at the Mannheim conference in 1975, Horst Ehmke, the vice chairman of the commission that organised the consultation and writing process, claimed that the two major aims were met: first, to create a political guide for the next decade and second to unify the party by involving different party wings, especially the rebellious *Jusos*<sup>372</sup>, in a common process that led to an accepted outcome. Despite the long effort to elaborate the document, the *Orientierungsrahmen* '85 could not fulfil its function as political guide due to the crises in the global economy at the end of the 1970s.<sup>373</sup>

Another important programmatic innovation of the 1970s was the setting up of a permanent *Grundwertekommission*<sup>374</sup> with Erhard Eppler as its first chairman. As Willy Brandt stated in the preface to the commission's first official document:

*Wer über Grundwerte nachdenkt, muß sich dessen bewußt sein, daß man auf die Darstellung der entsprechenden ökonomisch-politischen Rahmenbedingungen nicht verzichten kann.*<sup>375</sup>

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<sup>371</sup> See Küpper, Jost (1977): *Die SPD und der Orientierungsrahmen '85*, Verlag Neue Gesellschaft, Bad Godesberg, pp. 21 sqq.

<sup>372</sup> Young Socialists within the SPD

<sup>373</sup> See Miller, Susanne, Heinrich Potthoff (1991): *Kleine Geschichte der SPD. Darstellung und Dokumentation 1848-1990*, Dietz, Bonn, p. 229.

<sup>374</sup> Basic Value Commission

<sup>375</sup> Eppler, Erhard (1984): *Grundwerte. Für ein neues Godesberger Programm*, Rowohlt, Hamburg, p. 15.

Own translation

The ones who think about basic values must be aware of the fact that they cannot abandon an account of the corresponding economic-political framework.

The main and permanent objective of the *Grundwertekommission* was to relate the party's basic values of liberty, equality, and solidarity to socio-economic realities. This basically meant to address the tension between ideology and pragmatism, which in many respects is only a superficial dichotomy, as Eppler argued:

*Von da an ist es nur noch ein Schritt zu jener längst zu Tode gehetzten Unterscheidung zwischen „Pragmatikern“ und „Ideologen“ (...). Dabei ist der Unterschied zwischen beiden allenfalls der, daß die einen sich die theoretischen Vorstellungen bewußt machen, die ihr Handeln bestimmen, während die andern sich von unbewußten, aber deshalb nicht weniger wirksamen und meist strukturkonservativen Theoremen, Urteilen und Vorurteilen leiten lassen. Politik ist immer pragmatisch zielgerichtet.*<sup>376</sup>

Fulfilling its mission statement, the *Grundwertekommission* became the permanent arena for merging the debates about political theory and practise.

These programmatic developments were overshadowed by turmoil in the party following the resignation of Willy Brandt as Chancellor in the wake of the Guillaume affair in 1974. This event had the potential to shift the party to the left in reaction to Brandt's successor Helmut Schmidt, who was from the SPD right. Brandt, however, stayed on as party chairman and could thus play the crucial role as mediator between the SPD Chancellor Schmidt and the party. Ironically, this position was very similar to the role Erich Ollenhauer played for him when Brandt was the party candidate perceived to be from the right.<sup>377</sup>

At the beginning of the 1980s however, the party constituents drifted more and more apart. The 'Troika' Brandt, Schmidt and Wehner, that had dominated and held

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<sup>376</sup>

Ibid, p. 9.

Own translation

From there it is only one step to the much abused differentiation between 'pragmatists' and 'ideologists' (...). And the difference between both is at best that the former are conscious of the theoretic beliefs that determine their action whereas the latter are driven by unconscious, but not less effective, structural conservative theorems, judgements and stereotypes. Politics is always pragmatic and target-oriented.

<sup>377</sup>

See Paterson, William (1975): The SPD after Brandt's fall – Change or Continuity?, *Government and Opposition*, Vol.10, No. 2, pp. 177 sqq.

together the party for so long, disintegrated. Herbert Wehner more and more lost his power base in the parliamentary group being unable to cope with a new generation of MPs that did not accept his authoritarian leadership. And Willy Brandt started to think beyond the boundaries of government and established the sustainability of the party as his top priority. And this was necessary as the party had to cope with the rise of the Green Party to its left and with the loss of votes to the right. The controversies surrounding the stationing of missiles in Germany and Schmidt's social and economic policies became very divisive issues. After the trade unions stopped their support for Schmidt, the social-liberal coalition was ended by the exit of the FDP in 1982.<sup>378</sup>

After all, the end of the social-liberal coalition was hardly surprising. It seemed that after the conclusion of the *Ostpolitik* the common political ground of SPD and FDP was exhausted.<sup>379</sup> Policy conflict emerged over how to deal with the economic crisis. The SPD suggested increased burdens for the wealthy whereas the FDP favoured the healing power of the free market and attacked the level of social security payments. In Vice-Chancellor Genscher's words the liberals' task was 'to break a mentality of claims'.<sup>380</sup>

Another important, if not more important, factor was the SPD's diminishing fortunes across Germany. In several *Länder* and according to national opinion polls, the social democrats were losing extensive ground. The FDP feared for their participation in government and exercised their opportunity to choose a coalition

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<sup>378</sup> See Walter, Franz (2002): *Die SPD. Vom Proletariat zur Neuen Mitte*, Alexander Fest Verlag, Berlin p. 212.

<sup>379</sup> See Lösche, Peter (1993): *Kleine Geschichte der deutschen Parteien*, Stuttgart, Kohlhammer, p. 129.

<sup>380</sup> Miller, Susanne, Heinrich Potthoff (1991): *Kleine Geschichte der SPD. Darstellung und Dokumentation 1848-1990*, Dietz, Bonn, p. 251.

Own translation

To break a mentality of claims

partner. Essentially, the FDP's loyalty to the SPD went only as far as the liberals' share of power was secured. This tactic however was not shared by all liberals. Because of this dispute, some of the critical liberals, including prominent figures such as the then FDP general secretary Günter Verheugen and Ingrid Matthäus-Meyer, decided to turn their back on the FDP and joined the social democrats.<sup>381</sup>

When the SPD's opposition role was confirmed at the 1983 general elections, that produced a disastrous result for the party, the programmatic discussion in the party was revived. This was long overdue after exhausting 16 years in government with only muted or tactical programmatic discussions such as the *Orientierungsrahmen* '85. The party had become volatile with a very thin programmatic basis as for instance the NATO double track resolution showed.

The party which, by a large majority, made the 1979 NATO double-track resolution possible had, within a few years, become a party which rejected the deployment of the Pershing and Cruise Missiles by an even greater majority.<sup>382</sup>

On the basis of division over old policies, such as economic policy, and new issues, such as the environment and nuclear power, the party's programmatic overhaul was a hard task.<sup>383</sup> As Peter Lösche observed, the individual contributions to this new programmatic debate became longer and longer, a sign for the need of political integration. The debates eventually resulted in the *Berliner Programm* accepted in 1989. For the first time in a social democratic programme, issues such as the environment, the North-South divide, a new peace order and the emancipation of

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<sup>381</sup> See Ibid, 257.

<sup>382</sup> Gransow, Volker (1986): German Social Democracy in the 1980s, *Telos*, No. 68, p. 39.

<sup>383</sup> Padgett, Stephen, Tony Burkett (1986): Political Parties and Elections in West Germany. The Search for a new stability, London, Hurst & Company, p. 75.



women were dealt with at length.<sup>384</sup> However, with the fall of the Berlin wall and the following deconstruction of the bipolar world of the Cold War, the *Berliner Programm* was outdated almost on the day of its acceptance.

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See Lösche, Peter (1993): Kleine Geschichte der deutschen Parteien, Stuttgart, Kohlhammer, p. 132.

#### 5.4 The SPD in the early and mid 1990s

The SPD entered the 1990s carrying heavy burdens. The party still suffered from the repercussions of the difficult 1980s in which even the death of social democracy was predicted after its 'Golden Age' in the 1970s.<sup>385</sup> Also the dissolution of the party's traditional electorate following the societal opening and the subsequent break-up of static class structures left the party with a very heterogeneous electorate and the need for electoral coalition building in order to win majorities. The transformed societal structures did not just change the nature of the SPD's electorate but also established another political force on the left in Germany – The Greens. If some believed in the late 1970s and 1980s that the Greens would not survive politically, they now had to accept that the post-materialist party was a permanent factor. And last but not least the reunification of Germany (and the reunification of the SPD as a party) fundamentally changed the political playground in Germany and set new political tasks that would change German politics for decades to come. In sum moving into the new decade, the party faced a combination of old and new challenges.<sup>386</sup>

Representative for the state of the party in general, the electoral results reflected the immense difficulties the party had in coming to terms with the changes happening around it and its problems to respond appropriately. In 1990, the chancellor candidate Oskar Lafontaine campaigned with the very unpopular message (later to be shown to be correct) that tax increases would be inevitable to finance German reunification. In general, he was accused of having a too sober approach to the very

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<sup>385</sup> See Dahrendorf, Ralf (1980): *After Social Democracy*, Unserville State Papers, London.

<sup>386</sup> See Walter, Franz, Tobias Dürr (2000): *Die Heimatlosigkeit der Macht. Wie die Politik in Deutschland ihren Boden verlor*, Alexander Fest Verlag, Berlin p. 98.

emotional topic of German unity and faced also opposition to his views from within the party. Most notably Willy Brandt clashed with the at the time most prominent representative of his 'grandsons' generation over this issue. Lafontaine's strategy however did not pay off as he fundamentally failed to forge the needed electoral coalition for the SPD.<sup>387</sup>

The early 1990s in the SPD were characterised by a fundamental lack of leadership and the resulting shortage of political direction. The internal fight of the political generation of Willy Brandt's 'grandsons' Engholm, Lafontaine, Scharping and Schröder paralysed the party seriously. Each of the 'grandsons' had their *Land*, in which they resided as minister president and built up their personal power base. This in turn led to a fundamental weakness of central leadership. In absence of one centre of power the coexistence of the different power centres lead to a hard fought competition for dominance. In the late 1980s, Oskar Lafontaine was the dominating person in this generation of 'grandsons'. After his defeat in the 1990 federal elections however, the competition opened up again.

Several commentators such as Franz Walter and Uwe Jun also referred to the rising role of the media in the context of political competition.<sup>388</sup> This feature, that has played a role in the SPD since the times when Willy Brandt consciously 'played' the media, lead to a dangerous development in the context of the SPD leadership battle. Along with the appreciation of the media's role in politics came the opportunity to use the system to one's own benefit by feeding it what it wants. Especially Oskar Lafontaine and Gerhard Schröder were masters in this game. They soon found out that

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See *ibid.*

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See Walter, Franz (2002): *Die SPD. Vom Proletariat zur Neuen Mitte*, Alexander Fest Verlag, Berlin and Jun, Uwe (2004): *Der Wandel der Parteien in der Mediendemokratie, SPD und Labour Party im Vergleich*, Campus Verlag, Frankfurt.

some controversial TV appearances and other media manipulation served their leadership ambitions better than traditional party work that involved hard-bitten negotiations of political positions and a fair amount of meeting commitments. By drawing their internal struggle to the media stage, Willy Brandt's grandsons damaged the party apparatus further what would become a severe problem after the party gained power in 1998. Or as Franz Walter put it:

*Die Medienpolitiker vernichteten um an die Macht zu kommen gerade jene Faktoren, die sie brauchten, um an der Macht zu bleiben. Auch das wurde ein Dilemma der SPD im ersten Jahr nach der Bundestagswahl 1998.*<sup>389</sup>

The first 'grandson' dropped out of the leadership competition when Björn Engholm resigned as SPD chairman in the wake of an affair in 1993. The following leadership contest was and still is the first one that was decided by a membership ballot. This process resulted in a victory for Rudolf Scharping, who managed to collect 40.3 per cent of the party member's vote in a three horse race against Gerhard Schröder and Heidemarie Wiecek-Zeul. This result could be interpreted in a variety of ways; as evidence of a solid support from the grassroots rather than the delegate body for the new chairman, or as evidence that the majority of party members did not support the new chairman. The latter interpretation was the one used by Lafontaine and Schröder.

Against this backdrop, it was not surprising that the leadership question came up yet again only two years later, when, following a public row between Scharping and Schröder, Oskar Lafontaine challenged the chairman at the 1995 party conference in

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<sup>389</sup> Walter, Franz, Tobias Dürr (2000): Die Heimatlosigkeit der Macht. Wie die Politik in Deutschland ihren Boden verlor, Alexander Fest Verlag, Berlin, p. 101.

Own translation

In order to gain power, the media politicians destroyed in particular the factors they needed to stay in power. This too should become a dilemma for the SPD in the first year after the 1998 Bundestag elections.

Mannheim. In a crucial vote, Lafontaine defeated Scharping and assumed the chairmanship. For the first time in a decade, it looked like there could really be a solution to the party's leadership crisis. With a strategy of carrots and sticks coupled with significant personal input in party executive and committee meetings, Lafontaine achieved what had been missing since the chairmanship of Willy Brandt: he brought together the different wings of the party and unified them into a much more coherent party.<sup>390</sup>

In retrospect, this period has to be seen as a brief period of ceasefire rather than a permanent peace deal that ended the internal war of the ambitious 'grandson' generation. The two last men standing, Schröder and Lafontaine, continued their competition in the run-up to the 1998 election and later in government. This battle will be at the heart of analysis later in this chapter.

The 1990s before the 1998 *Bundestag* elections brought very little new programmatic input as a result of the leadership conflicts dominating the party. The few developments that did occur between the acceptance of the Berlin programme and the rise of the *Neue Mitte* will be dealt with in the programmatic section of this chapter. It is interesting, however, to have a close look at the organisational development of the party in this period. There are some valuable lessons to be learned that inform why the *Neue Mitte* developed as it did.

Ideas for organisational party reforms go back to the 1980s, but it was not before the first of the 'grandsons', Björn Engholm, became party leader before these reforms were pursued under the label 'SPD 2000'. The general aim of the reform package, that was accepted at the party conference in Bremen in 1993, was the

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<sup>390</sup>

See *ibid*, pp. 104 sqq.

'modernisation' of party structures , what in practical terms meant giving more participatory and decision-making powers to the grassroots membership, opening the party structures for non-members and adjusting the party's communication strategies.<sup>391</sup>

Two major steps to appreciate ordinary party members were taken. First, the possibility for direct candidate selection was introduced. A membership ballot to directly select candidates for offices on local, state, and federal level could be held following the statutes change of 1993. The party constitution even allowed for a real primary with a binding result on the chancellor candidate. The direct election of the party chairman, that was used shortly after the organisational reform to elect Rudolf Scharping, is not binding however.<sup>392</sup> The party conference still has to elect, or confirm, the chairman. In reality, it is not feasible that a party conference would overrule the majority will of party members. The legitimisation of the membership vote can however be weak. If a binding vote on the chancellor candidate had produced a simple majority, as was the case with Scharping's party leader election, there would have been a second vote between the top two candidates in order to produce an absolute majority for one of them. This was not the case, however, for the leadership election, with the already mentioned questionable or 'interpretable' legitimacy basis for the winner of the membership vote. The intention behind direct selection by the grassroots was to dilute the hitherto decisive influence of regional and local leadership groups in choosing candidates.<sup>393</sup>

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<sup>391</sup> Jun, Uwe (1996): Inner-Party Reforms: The SPD and Labour Party in Comparative Perspective, *German Politics*, Vol.5, No. 1, pp. 61 sqq.

<sup>392</sup> See *ibid.*

<sup>393</sup> See *ibid.*, p. 64.

The second new feature of the 'SPD 2000' programme was membership votes on political issues. If the support of 10 per cent of the membership is secured, a binding membership ballot about a particular political issue can be initiated. The initiative for such a poll can also come from the party conference or the party executives on federal and the next highest level (*Bezirke*). A result is binding if it is accepted by a majority of members and if at least 20 per cent of the membership participated in the vote. The first attempt to use this tool of a binding membership vote on policy issues was when a group of left wing MPs in 2003 tried to gather the support of 10 per cent of party members to trigger a poll to bring down Gerhard Schröder's 'Agenda 2010'. The initiative was withdrawn after then chancellor Schröder agreed to call a special party conference, what he had declined up to then.<sup>394</sup>

There is a clear limit, however, to the durability of such a membership vote on policy, what is inconsistent with the overarching reform idea of increased party democracy. Within two years after a membership decision, the party conference can overrule it with a 2/3 majority. After two years, even a simple majority of the conference is enough to change the official party position. This measure can only be seen as a tactical step to avoid a major weakening of the decision-making powers of the party conference, as it remains the ultimate policy deciding institution.<sup>395</sup>

This tendency of power conservation by the party conference was also clearly evident in another proposed reform that failed to be enacted at all: consultative membership polls. The party delegates saw the danger that such a consultative membership poll could be used tactically by the leadership to circumvent the normal

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<sup>394</sup> See also Chapter 7.

<sup>395</sup> See Jun, Uwe (2004): *Der Wandel von Parteien in der Mediendemokratie. SPD und Labour Party im Vergleich*, Campus Verlag, Frankfurt, pp. 139 sqq.

party decision-making bodies, most importantly the party conference itself. This measure was accused to be a phoney empowerment of the grassroots, which in reality functions as a legitimacy generating tool for the party leadership.<sup>396</sup>

It is important to stress that this mechanism, that was rejected by the SPD party conference in 1993, is similar to the one the Labour Party leadership used to control party policy making in their 'Partnership for Power' programme. In Labour's case, as scrutinised in the last chapter, the policy making process involves a government lead two year consultation process of party grassroots and other stakeholders, whose result, exactly because of this wide consultation, is very hard to turn down by the party conference. The effect is exactly what was turned down by the SPD conference: a centralisation of policy decision-making and a weakening of the party conference.

The third element of the 'SPD 2000' programme was the opening up of party structures to non-members. The same sort of purpose played a major role in this part of the reform too, as Uwe Jun observed:

The desired opening up of the party is to be interpreted along the same lines: a greater dispersion of interests and a greater heterogeneity in the process of decision making gives the party leadership a higher degree of autonomy and erodes the delegate body's power.<sup>397</sup>

The fourth and last important reform was the acceptance of the role of the media in modern politics and introduction of a more professional communication strategy. This involved a better coordination between the professional party functionaries and voluntary office holders as well as the educating the latter in relevant aspects of political communication. Despite some structural changes, a real

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<sup>396</sup>

See *ibid.*, p. 140.

<sup>397</sup>

Jun, Uwe (1996): *Inner-Party Reforms: The SPD and Labour Party in Comparative Perspective*, *German Politics*, Vol.5, No. 1, p. 64.



professionalisation of communication did not take place, in part due to the leadership struggles in the mid 1990s that superseded the party's development.<sup>398</sup>

In sum, the SPD of the 1990s before the *Bundestag* election of 1998 was characterised by fuzziness and paralysis. In programmatic terms, the whole question about the political direction of the party was superseded by the personal leadership struggles of the new generation of social democrats that drove the party into a serious depression. Some commentators even argued that in the mid 1990s the party was in an unprecedented malaise that even threatened the self-respect and pride of the party.<sup>399</sup> In organisational terms, the 'SPD 2000' programme introduced some structural changes, however without really shifting decision-making powers as the party conference largely blocked its own disempowerment. Compared to the British Labour Party, that by the time had undergone major changes and reformed its programme to the 'New Labour' platform, the SPD seemed utterly chaotic, without an up-to-date party constitution, without clear leadership and with several competing power centres. Hence, the major difference between the SPD and Labour in the run-up to their victorious elections is that in the case of Labour, the transformation to 'New Labour' had been made whereas the SPD suffered from a wide variety of deficiencies.

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<sup>398</sup> See Jun, Uwe (2004): Der Wandel von Parteien in der Mediendemokratie. SPD und Labour Party im Vergleich, Campus Verlag, Frankfurt, p. 141.

<sup>399</sup> See Walter, Franz (2002): Die SPD. Vom Proletariat zur Neuen Mitte, Alexander Fest Verlag, Berlin, pp. 238 sqq.

### 5.5 The Election of 1998 and the Rise of the *Neue Mitte*

Against the backdrop of the SPD's party history and desolate condition in the 1990s, the run-up to the 1998 election and the rise of the *Neue Mitte* appears differently compared to analyses with a narrower focus. After Gerhard Schröder secured his candidacy for the top job in German politics by achieving a convincing election victory in his state of Lower Saxony, an electoral strategy to secure victory after 16 years of conservative-liberal government was forged.

In this framework, the term *Neue Mitte* was reintroduced. In contrast to the *Neue Mitte* Willy Brandt defined in the 1970s, the *Neue Mitte* in the *Bundestag* elections of 1998 meant the integration of Third Way elements in the SPD campaign. It is important to emphasise however that by no means the Third Way was accepted as the exclusive basis of campaign. But the core idea of the Third Way as an electoral strategy was worked in the election manifesto. Therefore well known Third Way statements such as 'tough on crime and tough on the causes of crime' as well as the concept of 'rights and responsibilities' could be found in the SPD 1998 election manifesto '*Arbeit, Innovation und Gerechtigkeit*'.<sup>400</sup>

In the 1998 election manifesto, the *Neue Mitte* was defined as follows: The 'key players' [*Leistungsträger*] in society, who are highly qualified and motivated; who bear responsibilities in families and schools for education and training of children; the far-sighted and committed managers and entrepreneurs, the innovative craftsmen and professionals, those who dare to start up new companies, the highly qualified computer scientists, physicians and engineers, the inventive technicians and scientists, and the responsible German trade unions. These are the men and women upon which we build. Together with these key players of our society, we are the New Centre of Germany. Men and women who look for their place in employment and society

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See SPD (1998): *Arbeit, Innovation und Gerechtigkeit. SPD Programm für die Bundestagswahlen 1998*, accepted at the party conference in Leipzig. For the concept of 'rights and responsibilities' see especially chapter 4 '*Soziale Sicherheit und Gerechtigkeit*' section '*Arbeit statt Sozialhilfe*'. See chapter 11 '*Innenen Frieden bewahren - Innere Sicherheit stärken: Entschlossen gegen Kriminalität und gegen ihre Ursachen*' for 'tough on crime, tough on the causes of crime'.

in order to make their contribution also belong to this New Centre, as well as the young people who look for training and employment and all the others who will not accept unemployment and injustice.<sup>401</sup>

It is not hard to learn from this definition of what the SPD understood under the *Neue Mitte* that it was a tactical concept, intentionally indistinct, that tried to include as many societal layers as possible. Strikingly a clear reference to workers or employees is missing in this definition. These groups were covered in different parts of the manifesto.

The manifesto as a whole reflected the general electoral strategy of the SPD in 1998. In almost all sections, one could find expressions such as 'X as well as Y', for example stating the party's belief in the power of the market but at the same time arguing for the role of the state and the need for sufficient funding for its functions.<sup>402</sup> In that sense '*Arbeit, Innovation und Gerechtigkeit*' even as a whole reflected a key element of the 'Partisan Third Way' criteria. It consciously avoided clear cut commitments for electoral reasons and must thus be seen as a programmatically rather empty document.<sup>403</sup> It was a tactical manifesto. And given the build-up to the 1998 election explored earlier in this chapter, it is hard to see where a comprehensive modernised social democratic programme should have come from.

This twofold party strategy becomes understandable if one takes the need for the building of electoral coalitions – following the decline of the SPD's traditional electorate – into account. Also the personal division of labour between the candidate

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<sup>401</sup> Busch, Andreas, Philip Manow (2001): The SPD and the Neue Mitte in Germany, in: White, Stuart: *New Labour: The Progressive Future?*, Palgrave, New York, pp. 180 sqq.

<sup>402</sup> See SPD (1998): *Arbeit, Innovation und Gerechtigkeit. SPD Programm für die Bundestagswahlen 1998*, accepted at the party conference in Leipzig.

<sup>403</sup> See Egle, Christoph and Christian Henkes (2004): Between Tradition and Revisionism – The Programmatic Debate in the SPD, in: Haseler, Stephen, Henning Meyer: *Reshaping Social Democracy: Labour and the SPD in the New Century*, European Research Forum at London Metropolitan University, London, pp. 123 sqq.

Schröder and the chairman Lafontaine reflected this double-edged strategy. Schröder tried to embody the *Neue Mitte* by appealing to the politically very diverse group of people he saw as the New Centre. Lafontaine's job on the other hand was to keep the traditional SPD voters in line. The quite different policy positions (X and Y) in the same election manifesto represented this approach, what should produce enormous difficulties after the election.

Another important function of the diverse manifesto was to unite the party for the 1998 election. Following the turbulent times the SPD experienced in the years before, this was a factor that was very important. The plan worked for the election, but the division of labour between the chairman and the candidate, that during the election campaign simply papered over the very different approaches Lafontaine and Schröder pursued, later led to the dichotomy between the 'traditionalist' Lafontaine and the 'moderniser' Schröder. On the basis of the party's history, these categories can be easily revealed as rather meaningless on a longer time scale (as argued before, at the end of the 1980s Lafontaine was seen as the 'moderniser'). Also, they provide little analytical help as there has never been a clear definition of what a 'traditionalist' or a 'moderniser' stands for. The outbreak of the programmatic fight between the so-called 'traditionalists' and 'modernisers' however heralded the end of the 'party unity' during the election that was more political marketing than reality.

What does this mean for the Third Way and the *Neue Mitte* in the framework of the 1998 *Bundestag* elections? The *Neue Mitte* as one element in the election manifesto can be seen as representing a clear Third Way input. It contained known Third Way slogans whose main purpose was to build an electoral coalition rather than really expressing a set of policies or a political programme. Hence, some aspects of the

liberal concept of the Third Way, or of the 'new coalition between social democracy and liberalism' as it has sometimes been coined<sup>404</sup>, were clearly incorporated in the 1998 electoral manifesto. In the case of the SPD, the Third Ways' nature and origin as an electoral strategy becomes much clearer than in the case of the British Labour Party, as it was only tactically used in the election manifesto itself and did not symbolise a major personal, programmatic and organisational party reform as it did in the United Kingdom driving the ideas of the 'Policy Review' further. The subsequent impact of the Third Way on the SPD and the reasons why it did not take hold of the party will be the subject of the next section on the programmatic development of the SPD after the 1998 election.

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See Beer, Samuel H. (2001): *New Labour, Old Liberalism*, in: White, Stuart (ed.): *New Labour: The Progressive Future?*, Palgrave, New York, and Salvati, Michele (2001): *Prolegomena to the Third Way Debate*, in: White, Stuart: *New Labour: The Progressive Future?*, Palgrave, New York.

## 5.6 *Neue Mitte*, Third Way and the Programmatic Development of the SPD

It is important to state, that in the case of the SPD the debates about the Third Way and the *Neue Mitte* were elevated to a programmatic discourse only after the *Bundestagswahl* of 1998 was won. What should become a challenge for New Labour in its second and third term in office – renewing the party in government – was a task that the SPD had from day one of its government participation. Also, the general role of party programmes had deteriorated since the 1980's, for the reasons analysed earlier in this chapter. So, the *Neue Mitte* in government happened on the back of a long development away from a programme party.<sup>405</sup>

What were the programmatic steps in the 1990's before the successful elections? The value the leading 'grandsons' gave to the party programme was characterised by the speech by Oskar Lafontaine, himself one of the leading figures in the elaboration of the document, given at the acceptance of the *Berliner Programm*. In his 90 minutes speech, the programme itself did not even feature once. Also, when he became chancellor candidate in 1990, he set up another programmatic commission leading to complete confusion about the party's political basis.<sup>406</sup> Apart from the general tendency that the 'grandson' generation preferred personal programmes to shape their own image over referring to the party's programme, there was an update of some of the party's programmatic positions called the *Petersberger Beschlüsse*. The *Petersberger Beschlüsse* accepted in 1993 were expression of a patchwork review of

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<sup>405</sup>

Eppler, Erhard, interview with author, 22<sup>nd</sup> July 2006.

<sup>406</sup>

Ibid.

the party's position on asylum, bugging operations, and out of area missions.<sup>407</sup> It did not amount to much more than a very limited catch up process to political realities.

As described earlier, there were times in which the party actively used the work on a programmatic document to integrate and unify different party wings, as happened with the *Orientierungsrahmen '85* and also in the work leading to the *Berliner Programm*.<sup>408</sup> In the 1990s, however, this did not take place allowing the party to fracture further leading to a deep-seated disorientation of the party as a whole.<sup>409</sup>

In the years of the first Schröder government, there were three documents that were important for the Third Way in the programmatic debates of the SPD. First the contribution *The Politics of the New Centre* by Bodo Hombach, Schröder's first chancellery minister, the Blair-Schröder declaration, and the discussion paper 'Dritte Wege – Neue Mitte' by the *Grundwertekommission*.

Bodo Hombach's contribution, that was published just after the *Bundestagswahl* 1998, can be summarised as a German Third Way manifesto. It heavily drew on the experiences of the British Labour Party and to a degree also the US Democrats under Clinton and set the Third Way agenda as a goal for the programmatic renewal of the SPD<sup>410</sup>:

New Labour is already a considerable way down the path of the Third Way. As a term, the Third Way signifies a departure both from the economic individualism of the Thatcher era, which equated competition with confrontation, and from the demand to be allowed to make unrestricted claims on the welfare state.

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<sup>407</sup> See Grönebaum, Stefan (1999): Die mühsamen Paradigmenwechsel der SPD. Zwischen Realitätsverweigerung und Überanpassung, *Neue Gesellschaft/Frankfurter Hefte*, No.8, pp. 667-684.

<sup>408</sup> See Eppler, Erhard, interview with author, 22<sup>nd</sup> July 2006.

<sup>409</sup> See Kleinert, Hubert (1999): Weder Innovation noch Gerechtigkeit?, *Neue Gesellschaft/Frankfurter Hefte*, No.12, pp. 1063-1069.

<sup>410</sup> Earlier elaborations of Gerhard Schröder's ideas for new policies, especially economic and welfare policies, can be found in Schröder, Gerhard, Reinhard Hesse (1998): Und weil wir unser Land verbessern..., 26 Briefe für ein modernes Deutschland, Hoffmann und Campe, Hamburg.

(...) The SPD would do well to remember such things as it embarks on its own programme of reforms.<sup>411</sup>

In the first months of government, programmatic movement was continuously blocked by the opposite aims of Gerhard Schröder and Oskar Lafontaine, who, as finance minister with extensive economic decision-making power and party chairman, was not in a significantly weaker position than the new chancellor. Following Lafontaine's sudden and unexpected retirement from all political offices however, the way was free for Schröder to make a programmatic impact on the party. After more than a decade, the personal rivalry between the 'grandsons' had ended and the 'last man standing', Gerhard Schröder, resumed the party chairmanship. With all other significant personal factors eliminated, the time seemed right for Schröder to attempt a programmatic party reform.

Unsurprisingly against this background, only a few weeks after Lafontaine's departure, the Blair-Schröder declaration was published. The reactions to it in Britain and in Germany represented the different developments (or lack of development) the parties had taken in the previous years.<sup>412</sup> In Britain, the paper was published almost unnoticed and disappeared quickly in the Labour Party archives. There was nothing new or exciting to it from a Labour point of view. In the case of the SPD however, it triggered an outcry and hard debate, as it was the first – and controversial – attempt to fill the programmatic vacuum.

The Blair-Schröder declaration argued for new supply-side economics from the left including the demand for a greater flexibility of labour markets and employee adaptability. Furthermore, it called for establishing the right political framework in

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<sup>411</sup> Hombach, Bodo (2000): *The Politics of the New Centre*, Polity Press, Cambridge, pp. 72 sqq.

<sup>412</sup> See also Jeffery, Charlie, Vladimir Handl (1999): *Blair, Schröder and the Third Way*, in: Funk, Lothar: *The Economics and the Politics of the Third Way. Essays in Honour of Eric Owen Smith*, Lit Verlag, Münster, pp. 78 sqq.



which the private economy can flourish. This included corporate tax cuts and a de-bureaucratisation of government, whose primary aim should be to invest in human and social capital and avoid deficit spending. Also, it claimed that the EU should push further for the liberalisation of world trade.<sup>413</sup>

In the SPD, the paper caused a wide-ranging debate that predominately focused on the alleged introduction of neo-liberal ideas into the SPD. The voices ranged from opinions of people who were sympathetic to the ideas of Blair<sup>414</sup> (it is hard to see where in the text Gerhard Schröder's original contribution featured) via criticism of being too narrow minded about their political prescriptions<sup>415</sup> to outright rejection.

In the context of the Blair-Schröder debate, the programmatic cacophony revealed the deep divisions within the party. Hence, it was no surprise that the party conference in the same year finally decided to set up a programme commission to elaborate a new party programme. The aim was to unite the party and give it a new programmatic identity. The *Grundwertekommission* at the end of 1999 tried to analyse and channel the heated debate about the Third Way and give it some analytical sharpness. The commission chairman Wolfgang Thierse clarified the deficiencies of the German Third Way debate after the Blair-Schröder declaration:

*In der Sozialdemokratie wird wieder über Grundwerte gestritten. Das ist gut so! (...) Die Debatte der vergangenen Monate hat aber unter zwei erhebliche Defiziten gelitten. Zum einen fehlte zumeist eine fundierte empirische Grundlage, die unter Beachtung der je unterschiedlichen Voraussetzungen in politischer Tradition wie Institutionengefüge eine Vergleichbarkeit der verschiedenen sozialdemokratischen Politiken, in dieser Hinsicht also*

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<sup>413</sup> See Blair, Tony, Gerhard Schröder (1999): *Europe: The Third Way – Die neue Mitte*, Labour Party and SPD, London.

<sup>414</sup> See Hauer, Nina (1999): *Keine Angst vor Schröder und Blair*, *Neue Gesellschaft/Frankfurter Hefte*, Vol. 46, No. 9, pp. 773-776.

<sup>415</sup> See Meyer, Thomas, Michael Müller (1999): *Dritte und andere Wege*, *Neue Gesellschaft/Frankfurter Hefte*, Vol. 46, No. 10, pp. 871-874.

*unterschiedlicher „dritter Wege“ möglich gemacht hätte. (...) Zum anderen haben mediale Vereinfachungen, die die jeweilige Debattenbeiträge nach dem Muster „Modernisierer“ und „Traditionalisten“ zu sortieren versuchten, den Streit in der Sache eher behindert als befördert.*<sup>416</sup>

The paper, which was largely based on research of the political scientist and *Grundwertekommission* member Wolfgang Merkel, was a first contribution to the deliberations for a new programme. It indeed helped to clarify the discussion about the Third Way to a degree by identifying four different Third Way models in Western Europe: the market-oriented way: New Labour, the market- and consensus-oriented way: the Dutch PvdA, the statist way: the French socialists, and the reform and welfare way: Sweden.<sup>417</sup>

Whereas it is analytically unhelpful to define the Third Way as wide as it was done in this paper – namely coining the whole range of different social democratic politics in Western Europe as variants of the Third Way – the paper by the *Grundwertekommission* nevertheless helped to locate the German debate in the European context and thus provided some degree of orientation that had been missing in previous debates.

Wolfgang Thierse was not the only outspoken critic of the German debate about the Third Way. In his first comprehensive statement after his departure, the

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<sup>416</sup> Thierse, Wolfgang (1999): „Dritte Wege“ im europäischen Maßstab, *Neue Gesellschaft/Frankfurter Hefte*, Vol. 46, No. 12, p. 986.

Own translation:

Arguments about basic values are back in social democracy. That is very welcome! The debate of the last months, however, has suffered from two considerable deficiencies. First, most of the time a solid empiric foundation of the debate was missing. This would have made possible a comparison of the different social democratic policies, in that sense of the different 'third ways', considering dissimilar preconditions such as political tradition and institutional setup. Second, the simplification by the media trying to sort the debates as being between 'modernisers' on the one hand and 'traditionalists' on the other hand, has more hampered than helped the discussions.

<sup>417</sup> Grundwertekommission beim Parteivorstand der SPD (1999): *Dritte Wege – Neue Mitte: Sozialdemokratische Markierungen für Reformpolitik im Zeitalter der Globalisierung*, Berlin.

former chairman Oskar Lafontaine criticised the programmatic direction the party was taking:

*Mit Verwunderung und Zorn verfolgte ich, wie nach meinem Rücktritt Gerhard Schröder versuchte, die SPD auf den Holzweg des sogenannten dritten Weges zu führen. Ich bin zu der Einsicht gekommen, daß Teile der SPD Führung, allen voran der neue Parteivorsitzende, nicht verstanden haben, womit und warum wir die Bundestagswahlen gewonnen haben. (...) Gesellschaftsentwürfe, die in den Kategorien der Betriebswirtschaft verfaßt sind, widersprechen der abendländischen Kultur. Sie reduzieren den Menschen, der Freiheit und Würde will, auf ein flexibles Objekt, das sich den jeweiligen Kapitalverwertungsbedingungen anzupassen hat. Deshalb ist die zum dritten Weg erklärte Anpassung der Politik an vermeintliche wirtschaftliche Zwänge ein Holzweg.*<sup>418</sup>

What sounds like a general rejection of everything labelled Third Way is more a national criticism set in the German context than a general evaluation. Lafontaine criticised that the German Third Way debate was ill-informed and that key players in the debates would not know what the Third Way meant beyond the borders of Germany, especially in the United States and the United Kingdom. He argued that only a detailed analysis of the politics of Clinton and Blair as well as an evaluation of Anthony Giddens' contributions can lead to a comprehensive understanding of the Third Way<sup>419</sup>.

Talking about Giddens, Lafontaine stated that he would be categorised as a 'traditionalist' in Germany – to use this meaningless category for the last time – because Giddens' work dealt with what Lafontaine called the 'archimedic point' of

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<sup>418</sup> Lafontaine, Oskar (1999): Das Herz schlägt links, Econ Verlag, München, pp. 276, 301.  
Own translation

After my resignation, I followed with amazement and anger the attempts by Gerhard Schröder to guide the SPD on the wrong track of the Third Way. I came to the conclusion that parts of the SPD leadership, above all the new party chairman, have not understood why and by what means we won the general elections. (...) Societal concepts that are written in categories of business economics contradict our occidental culture. They reduce the human being, that wants freedom and dignity, to a flexible object that has to adapt to the respective conditions most favourable to the capital. That is why the adaptation of politics to alleged economic constraints called the Third Way is a wrong track.

<sup>419</sup> See Lafontaine, Oskar, interview with author, 7<sup>th</sup> August 2001.

social democratic politics: the regulation of international financial markets.<sup>420</sup>

Lafontaine himself shared many of Giddens' ideas, as already became obvious in his time in government, when he repeatedly quoted Giddens in his parliamentary speech on the ecological tax reform.<sup>421</sup>

The development of the new party programme in the time investigated in this thesis was unsuccessful. A preliminary report was presented to the 2001 party conference but since then until the end of the red-green coalition in 2005, the programmatic development can only be evaluated as a failure. The time target for the finalisation of the programme was not achieved and the process as a whole, especially during the second Schröder administration, suffered from the exigencies of being in government and frequent changes of top personnel. Schröder himself was forced to give up the party chairmanship to Franz Müntefering as the party more and more revolted against the governmental policies of the red-green government.

The debate about the programme was restarted on numerous occasions and some party groups, especially the group of young SPD Members of Parliament called *Netzwerk Berlin* contributed some programmatic input<sup>422</sup>, but generally the programmatic debate moved very slowly and at times not at all due to the increasing tension between party and government. A dichotomy developed in which the government on the one hand had no relevant programmatic input from the party and the party on the other hand increasingly opposed governmental policies, making it impossible to adapt the government's politics as party doctrine. This tension will be investigated further in Chapter 7.

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<sup>420</sup>

Ibid.

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See Lafontaine, Oskar (1999): Rede im Bundestag, 3. März, available at <http://dip.bundestag.de/btp/14/14024.pdf>, accessed 13<sup>th</sup> September 2004.

<sup>422</sup>

See [www.netzwerkberlin.de](http://www.netzwerkberlin.de) for further info.

### **Conclusion**

The case of the Third Way in the SPD revealed a series of core differences to the case of the British Labour Party that nevertheless provide further evidence for the characterisation of the 'Partisan Third Way'. First, the SPD did not undergo a deep programmatic change in opposition. The party's time in opposition was typified by a lack of programmatic direction and a paralysis of programmatic development due to the leadership struggles of the party's top personnel. When the *Neue Mitte* – the German variant of the Third Way – entered the party framework in the run-up to the 1998 elections, the criteria of the 'Partisan Third Way' identified earlier also applied to the SPD case. In the SPD case too, the concept was used as an electoral strategy that was developed by a political elite. The core message of the *Neue Mitte* was intentionally vague to avoid the exclusion of potential voters. The election manifesto as a whole argued for 'X as well as Y' leading to a winning formula for bringing together an electoral coalition. This manifesto design, however, prevented it from being a meaningful programmatic input into government.

The programmatic Third Way debate in the SPD opened up only after Oskar Lafontaine resigned from his political offices as Gerhard Schröder remained the only 'grandson' in the ring. To put it in perspective, this left Gerhard Schröder as newly elected Chancellor and party chairman in a power position no SPD politician had assumed since Willy Brandt. He used this powerful position to launch an attempt to bring the SPD programmatically on a Blairite Third Way starting with the publication of the Blair- Schröder declaration. This attempt failed. There are three primary reasons for this failure.

First, Schröder had to start this programmatic initiative whilst in government, what robbed him from one of the most powerful arguments Clinton and Blair used - the need for a rejuvenated public philosophy to become electable again. Of course, the *Neue Mitte* featured in the election manifesto but it at the same time included rather traditional social democratic policies. So, when Lafontaine suggested that the party leadership forgot why the party was elected in 1998, he alluded to the fact that on the basis of the manifesto, one could also argue that the traditional parts of it and not the *Neue Mitte* secured the electoral success. Also, renewing a party in office is generally a bigger challenge than in opposition. There is the broad tendency that the exigencies of governmental responsibility hamper a party's ability to develop a political programme that necessarily involves a dose of political vision.

Second, a core prerequisite to impose a political programme developed by elite on a party was not achieved. In contrast to the Labour Party, where a series of organisational reforms since the Policy Review more and more centralised political decision-making in the Labour Party, the SPD remained a party with rather weak central power compared to the Labour Party. Organisational reforms that would have weakened the decision-making power of the annual conference were declined in the early 1990s. The SPD thus retained its character as a de-centralised party in which the state chapters and *Bezirke* are powerful and often have different interests than the federal leadership. In these circumstances, Schröder's personal position – powerful as it was – was simply not sufficient to enforce in a top-down approach a concept that would have meant a clear break with the party's political tradition. This leads to the last argument why the Third Way failed in the SPD.

Third, the liberal concept Third Way would have meant a much bigger break with the party tradition in Germany than in Britain. In contrast to the Labour case, liberalism and social democracy have not developed in a close mutual relationship. On the contrary, as early as in the founding years of the SPD in the mid 19<sup>th</sup> century, liberalism and social democracy developed in diverging ways. Despite touching points between both political strands, for instance during the social-liberal coalition in the 1970s, the acceptance of the neo-liberal Third Way approach would have meant a huge ideological step; a step the party was not prepared to take.

In a nutshell, the party's position in government, the de-centralised party structure and the political tradition of the SPD prevented the 'liberalisation' of the party in programmatic terms by moving the party onto the Third Way.

How can the Third Way impact on the SPD then be categorised? As the party was not decisively moved programmatically during the Schröder administrations, the general impact of the Third Way on the SPD's programmatic development is no more than 'Inspiration' in Richard Rose's categories of 'lesson drawing'. In the case of the *Neue Mitte* in the 1998 election manifesto, one can talk of a 'Hybridization'. The *Neue Mitte* was clearly influenced by the Third Way but also heavily drew on the tradition of the *Neue Mitte* of Willy Brandt, at least rhetorically,<sup>423</sup> because Willy Brandt's idea of the *Neue Mitte* did not foresee a potential import of liberal ideas into the SPD but the definition of the political ground covered by the social-liberal coalition.

The influence of the *Neue Mitte* shifted the SPD as a party towards the vote seeking spectrum, however not as far and as clearly as the British Labour Party. During the Schröder years, the party remained without a renewed programmatic direction.

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See Schröder, Gerhard (1998): *Pragmatische Problemlösung und politische Führung, Neue Gesellschaft/Frankfurter Heft*, Vol. 45, No. 6, pp. 498 sqq.

Was the Third Way the next step of social democratic revisionism? Certainly not in the case of the SPD. As demonstrated, revisionism was an intellectual challenge to Marxist theory that took half a century to take hold of the party, at least in programmatic terms. The Partisan Third Way was an electoral strategy whose purpose was to optimise votes rather than challenge the intellectual basis of the party programme. This distinction will be further dealt with in Chapter 8. Even if the SPD in future develops in the direction of a more (neo-) liberal and economically-driven party it will have little to do with the Partisan Third Way of the mid and late 1990s. If at all the SPD's experience of the Governmental Third Way could be of importance. Why this is will be demonstrated in Chapter 7.



# Chapter 6

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## New Labour in Government 1997 - 2005

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### ***Introduction***

Following the analysis of the Third Way in the setting of the Labour Party and the SPD, the following section will address the policies of both parties in government. First, in this chapter, the policies of the first and second Blair administration will be analysed according to policy fields. As set out earlier, this examination will focus on economic and social policies as these are the main Third Way areas. This chapter will look in detail at New Labour's economic and social policy strategy as well as Gordon Brown's monetary and fiscal framework. New policy initiatives such as welfare-to-work, the minimum wage and tax credits will also be dealt with in detail.

Apart from the main arena of economic and social policy, a briefer analysis of domestic, public and foreign policy will be conducted. Foreign policy has to be considered as it has had a significant impact on the general political landscape after 9/11 and is also a policy field where there is an obvious distinction between New Labour's approach and the one by German Chancellor Gerhard Schröder. Domestic policy is an area that is suitable to further demonstrate the relationship between New Labour's Governmental Third Way and the Third Way origin in the US as well as the relationship between New Labour and its Thatcherite inheritance.

First, however, this Thatcherite inheritance - the starting conditions of the Blair government - will be briefly examined. Therefore, the first part of this chapter will address the legacy of the Conservative governments and analyse what sort of socio-economic situation Blair took over when he assumed office in 1997. Also, the changes to the general framework of British politics Thatcherism caused will be explained as an important factor in the making of the New Labour governments. Against this backdrop, the governmental policies of the two first Blair administrations will be analysed and set

in perspective to the role the single veto player in the British political system, Parliament, played in the making of governmental policies. This chapter will conclude by summarising the core findings and setting these findings in relation to the Partisan Third Way.

## 6.1 Thatcherism and the Conservative Legacy

There is a huge amount of academic literature and discussion about the 'Thatcher Revolution' and the change of paradigms in economic and social policy it introduced.<sup>424</sup>

According to Peter Hall's classification, the 'Thatcher Revolution' in economic and social policy is one of the rare occasions of third order policy change, where the fundamental policy aim is altered.<sup>425</sup> Also, Tony Blair's public admiration for Margaret Thatcher on more than one occasion has led to him often being portrayed as the 'son of Thatcher' and the Third Way as 'Thatcherism with a human face'<sup>426</sup> because of alleged programmatic closeness. In the following paragraphs, a brief introduction to Thatcherism and the Conservative legacy, which formed that starting point of New Labour's governmental experience, will be presented.

The emergence of Thatcherism within the Conservative Party in the 1970s was perceived as alien. Representative of this notion was Lord Alport's remark that 'Thatcherism is not Conservatism' in the sense that it conflicted with classic conservative values. Conservatives were foremost critical of fundamental policy change. However, instead of being viewed as following traditional conservatism, Thatcherism can be conceptualised as a mix of different conservative strands. According to Crewe and Searing, Thatcherism made its way in the Conservative Party by

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<sup>424</sup> See for instance Holmes, Martin (1989): *Thatcherism. Scope and Limits*, MacMillan, London, Young, Hugo (1989): *One of us*, MacMillan, London and Letwin, Shirley (1992): *The Anatomy of Thatcherism*, Fontana, London.

<sup>425</sup> See Hall, Peter A. (2002): *The Comparative Political Economy of the Third Way*, in: Schmidtke, Oliver: *The Third Way Transformation of Social Democracy: Normative claims and policy incentives in the 21st century*, Burlington, Ashgate.

<sup>426</sup> See amongst many other appearance for instance Halimi, Serge (1998): *How Left is Left in Europe? Means and Ends*, *Le Monde Diplomatique*, December.

joining together components from two familiar perspectives: liberal Whiggery and traditional Toryism. Thus Thatcherism is recognizably Conservative even if it has neglected the ideas of the Conservative establishment.<sup>427</sup>

The core ideas of Thatcherism were in fundamental opposition to the policy direction of social democrats in Europe and New Deal Democrats in the US. Thatcherism, or the New Right as it was also called, questioned accepted public policy assumptions and actively sought to change the political and institutional establishment.<sup>428</sup> As a political programme, Thatcherism revolved around three fundamental political ideals: discipline, free enterprise, and a strong state.<sup>429</sup>

Discipline in the setting of Thatcherism meant to emphasise law and order and a stricter legal and sentencing system. For Thatcherites, discipline also included self-reliance and individualism which explains why a comprehensive welfare state and benefits other than for the poorest were disdained. The political vision from this perspective is a society of independent individuals that encourages individual risk taking and also accepts the consequences of individualism including negative ones. Discipline was the value Mrs Thatcher had held the longest.<sup>430</sup>

The other two political ideals of a free economy and a strong state seem to be contradictory at first sight. This apparent contradiction is however not accidental as Andrew Gamble observed:

The idea of a free economy and a strong state involves a paradox. The state is to be simultaneously rolled back and rolled forward. Non-interventionist and decentralised in some areas the state is to be highly interventionist and centralised in others. The New Right can appear by turns libertarian and authoritarian, populist and elitist. This ambiguity is not an accident. It derives in

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<sup>427</sup> Crewe, Ivor, Donald D. Searing (1988): Ideological Change in the British Conservative Party, *American Political Science Review*, Vol. 82, No.2, p. 378.

<sup>428</sup> See Gamble, Andrew (1994): The Free Economy and the Strong State. The Politics of Thatcherism, MacMillan, London, pp. 34 sqq.

<sup>429</sup> See Crewe, Ivor, Donald D. Searing (1988): Ideological Change in the British Conservative Party, *American Political Science Review*, Vol. 82, No.2, p. 363.

<sup>430</sup> *ibid.*

part from the fact that the New Right has two major strands: a liberal tendency, which argues for a freer, more open and more competitive economy, and a conservative tendency, which is more interested in restoring social and political authority throughout society.<sup>431</sup>

There are similarities and differences in the emergence of the New Right and the Third Way. A similarity is a distinct fuzziness when it came to pinning down what the term really meant. A broad definition of 'New Right' was inescapable but it also ran the danger of being a term for every political development on the right. The New Right is best understood not just as a set of doctrines, but as a political movement that united diverse ideological strands, facilitated discourse about strategy, organised interest coalitions, formulated political programmes and ultimately helped to elect governments.<sup>432</sup>

These characteristics also apply to the Partisan Third Way with a particularly strong emphasis on the election aspect. As demonstrated earlier, the Partisan Third Way put winning elections on the very top of the agenda and sought to appeal to the electorate with a vote seeking rather than a policy seeking strategy. Policies were vague and adjusted to the electorate.

Thatcherism on the other hand showed the exact opposite characteristics in this respect. It was policy driven, not vote driven, and sought to change the perception of the electorate rather than to accommodate existing preferences in a political programme. And in many policy areas, it managed to instigate a long-term shift of perception of the British electorate.<sup>433</sup>

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<sup>431</sup> Gamble, Andrew (1994): *The Free Economy and the Strong State. The Politics of Thatcherism*, MacMillan, London, p. 36.

<sup>432</sup> See *ibid.*

<sup>433</sup> See Crewe, Ivor, Donald D. Searing (1988): Ideological Change in the British Conservative Party, *American Political Science Review*, Vol. 82, No.2, pp. 375 sqq.

So, from a theoretical point of view, this difference gives a first indication (with the obvious need for further investigation) of New Labour's governmental direction based on a brief analysis of Thatcherism and the Partisan Third Way: Thatcherism was a policy seeking political programme with some strategic elements to it that managed to shift the political ground in Britain. The Partisan Third Way is vote seeking in nature and tries to maximise electoral success by vague messages and accommodation to the existing beliefs of the electorate. The logic of the Partisan Third Way suggests that there would be no major shift of the political ground and that only the room within the Thatcherite consensus would be used by New Labour in government to design policies. This argument will be pursued later in this chapter.

As Andrew Gamble observed, Thatcherism was a conservative leadership project - without deep roots in the Conservative Party itself - which sought to organise a new hegemony in British politics. This first of all meant that the destruction of the strongly social democratic influenced post-war consensus was a primary aim for the government. Consensus finding was consequently dropped and the players and institutions of the labour movement – such as trade unions – were openly attacked. Thatcherism did not quite succeed in establishing a new hegemony but nevertheless managed to shift the political landscape by changing the priorities of policy and the tone of the policy debate. If it did not manage to create a deep rooted Thatcherite Britain, it certainly managed to make the opposition parties move in its direction in order to become electable.<sup>434</sup>

The Major premiership, that followed Thatcher was pushed out of office by her own party, saw the Conservative Party declining into turmoil. After Britain had to leave

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<sup>434</sup> See Gamble, Andrew (1994): *The Free Economy and the Strong State. The Politics of Thatcherism*, MacMillan, London, pp. 207 sqq.

the Exchange Rate Mechanism (ERM) in 1992, the Conservatives' competence in economic issues was shattered in the public's view. After his main tasks of preventing Michael Heseltine from becoming party leader, scrapping the poll tax and signing the Maastricht Treaty were completed, John Major

lived from day to day in a permanent mode of crisis (...). He turned into a stilted and mechanical version of Thatcherism, in which privatisation (...) seemed to be pursued for want of anything better to do.<sup>435</sup>

In the Major years, the Tories were disunited and in political chaos.

Thatcherism continued to dominate the political framework.

The change of the political landscape under Margaret Thatcher and the decline of the Conservative Party under John Major were crucial conditions for the renewal of the Labour Party. Some commentators even claim that the 'near-destruction' of the Conservative Party was the single most important condition of New Labour's rise to power.<sup>436</sup> It is against the backdrop of Thatcherism and the development of New Labour in opposition that the governmental records of the Blair administrations need to be looked at.

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<sup>435</sup> Gray, John (2004): Blair's project in retrospect, *International Affairs*, Vol. 80, No 1, p. 41. This quote might be over-generalising as Major also went beyond the policies of the Thatcher government in areas such as privatisation and the Northern Ireland issue.

<sup>436</sup> See *ibid.*, p. 40.



## **6.2     New Labour's Economic Policy**

In the domain of economic policy, the main task in the party reform process was to restore faith in Labour's economic competence. The unsuccessful economic management of the last Labour governments in the 1970s as well as the following radicalisation of the party culminating in the 'Alternative Economic Strategy' left deep doubts in the mind of the electorate as to whether the party was fit to run a successful economy or whether Labour's ideas were limited to 'tax-and-spend' policies.

It was one of the main tasks in the development of New Labour to get rid of the 'tax-and spend' stigma and to show economic ability. This aim did not change when Labour took office in 1997. For its first five years in office, Labour set itself a ten point plan:

1. Education will be our number one priority, and we will increase the share of national income spent on education as we decrease it on the bills of economic and social failure
2. There will be no increase in the basic or top rates of income tax
3. We will provide stable economic growth with low inflation, and promote dynamic and competitive business and industry at home and abroad
4. We will get 250,000 young unemployed off benefit and into work
5. We will rebuild the NHS, reducing spending on administration and increasing spending on patient care
6. We will be tough on crime and tough on the causes of crime, and halve the time it takes persistent juvenile offenders to come to court
7. We will help build strong families and strong communities, and lay the foundations of a modern welfare state in pensions and community care
8. We will safeguard our environment, and develop an integrated transport policy to fight congestion and pollution
9. We will clean up politics, decentralise political power throughout the United Kingdom and put the funding of political parties on a proper and accountable basis
10. We will give Britain the leadership in Europe which Britain and Europe need<sup>437</sup>

The first four points in Labour's election manifesto had clearly an economic origin following on from the 'it's the economy stupid' logic of Bill Clinton. Also education

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<sup>437</sup>

See Labour Party (1997): Because Britain Deserves Better, Labour Party Election Manifesto, London.

policy, which not necessarily needs to be viewed as economically driven, had a clear economic rationale as the election manifesto made clear: 'it [education] is not just good for the individual. It is an economic necessity for the nation.'<sup>438</sup>

Soon it became obvious that New Labour in government intended to follow the strategy it set itself in opposition and regain trust in its economic competence. The new Chancellor Gordon Brown, who enjoyed almost unprecedented power for running the economy following a 'division of labour' agreement with Tony Blair, did not lose much time and set a new framework for economic management. The construction of a new and more transparent economic system was the main focus of the Chancellor. As Philip Stephens of the *Financial Times* put it:

If a single, overriding, feature defined the economic policy of the first Blair government, it was the Chancellor's construction of permanent monetary and fiscal frameworks to keep it on the path of virtue.<sup>439</sup>

Only a few days after assuming office, Gordon Brown gave operational independence to the Bank of England following the advice of the US Federal Reserve Chairman Alan Greenspan, who he met only a few months before assuming office.<sup>440</sup> It was a move that even surprised the majority of his Cabinet colleagues most of whom did not know about it before the official announcement.

Transferring the power for monetary policy to an operationally independent Bank of England was a trust building exercise that replaced the solely advisory function the Bank previously had. The Monetary Policy Committee (MPC) was henceforth responsible for the setting of interest rates. The government however retained substantial influence in the monetary policy process. The Chancellor appoints four of

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<sup>438</sup>

Ibid.

<sup>439</sup>

Stephens, Philip (2001): *The Treasury under Labour*, in: Seldon, Anthony (ed.): *The Blair Effect: The Blair Government 1997-2001*, Little Brown, London, p. 189.

<sup>440</sup>

See Geoffrey Robinson (2000): *The Unconventional Minister*, Penguin, London, p. 36.

the nine MPC members and sets the targets towards which the MPC must orientate its decisions. The Treasury gave the Bank of England the unequivocal task to consider inflation above growth, as Brown deemed low inflation to be a prerequisite of economic growth.<sup>441</sup> The main task between 1997 and 2001 was to win over trust in the new monetary policy framework which, one can argue, was achieved. Monetary policy however met new challenges after global economic growth slowed down; an effect that was substantially aggravated by the 9/11 attacks on New York and Washington.

As some commentators argued, the real value of Bank of England independence showed through only after these events as quick reactions to the changed economic circumstances prevented Britain's economic growth from losing pace. This effective shift of focus from containing inflation to securing economic growth was possible because as inflation and inflation expectations moved closer together since 1998 – a clear sign of trust in the new mechanism for monetary policy – the Bank had some leeway to support growth without upsetting inflation expectation.<sup>442</sup>

The overarching theme of winning trust in Labour's economic competence was also the guiding idea for Gordon Brown's fiscal policy. Points two and three in Labour's 10 point plan promised low inflation (what Labour tried to achieve with the operational independence for the Bank of England), stable economic growth as well as unchanged income tax rates. The overall fiscal framework was set out in the 'Code for Fiscal Stability' that became law in 1998.<sup>443</sup> At the heart of the code, which calls for transparency in the setting of fiscal policy objectives, stability and efficiency in the

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<sup>441</sup> See Peston, Robert (2005): *Brown's Britain*, Short Books, London, pp. 132 sqq.

<sup>442</sup> See Smith, David (2005): *The Treasury and Economic Policy*, in: Seldon, Anthony, Dennis Kavanagh: *The Blair Effect 2001-2005*, Cambridge University Press, Cambridge, pp. 162 sqq.

<sup>443</sup> For further information see [http://www.hm-treasury.gov.uk/documents/uk\\_economy/fiscal\\_policy/ukecon\\_fisc\\_code98.cfm](http://www.hm-treasury.gov.uk/documents/uk_economy/fiscal_policy/ukecon_fisc_code98.cfm).

policy making process as well as responsibility and fairness in the management of public finances, is the so called 'Golden Rule'. The Golden Rule determines that over the economic cycle, the government would only borrow to invest, not to cover current expenditure.

The new rule however was not as rigid as it might sound:

The proviso that [it] applied over the economic cycle assured him [Gordon Brown] of a measure of discretion in the annual Budget. And because his forecast of revenue, spending and borrowing were deliberately conservative, Brown consistently outperformed against the targets. The framework, though, was sufficiently robust – and transparent – to serve Brown's purpose of reassurance for the markets.<sup>444</sup>

The Golden Rule as such does allow for Keynesian counter-cyclical economic policy as there is considerable room to boost public investment in case the economy slows down – also in form of new public debt. The Chancellor however was initially determined not to use the leeway his own fiscal framework provided and froze public spending on the levels foreseen by the previous Tory government for two years, which made public spending in relation to GDP drop to the lowest level in decades.

The Chancellor's policies also reflected a changed role for the state in economic matters. As Polly Toynbee observed, the new fiscal framework foresaw only a very limited role for the state as such:

At the heart of New Labour's beliefs was the phrase put into Gordon Brown's mouth by his adviser Ed Balls in 1994. 'Neo-classical endogenous growth theory' accepted that there was little the modern state could do to alter economic destiny. It should not even try to intervene to disturb the ownership of capital (...) or change commercial or property relations at large.<sup>445</sup>

In essence Gordon Brown pursued his main aim – to be perceived as a predictable and trustworthy Chancellor – by putting himself in a fiscal straightjacket.

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<sup>444</sup> Stephens, Philip (2001): *The Treasury under Labour*, in: Seldon, Anthony (ed.): *The Blair Effect: The Blair Government 1997-2001*, Little Brown, London, p. 192.

<sup>445</sup> Toynbee, Polly (2001): *Did things get better? An Audit of Labour's Successes and Failures*, Penguin, London, p. 98.

The only new public spending initiative targeted at young unemployed (New Deal – Welfare to Work<sup>446</sup>), was financed by a windfall tax on the privatised utilities, although some commentators argued that a series of stealth taxes such as the abolition of payable tax credits for pensions schemes and UK companies did in effect increase the government's tax revenue.<sup>447</sup>

In fiscal policy terms, the first years of the Labour government were dominated by austerity. Some degree of stealth tax income together with rising employment rates produced a sizable budget surplus that was available for investment after the first years of government. This trajectory was a successful emulation of what was achieved in the US administration under Bill Clinton.<sup>448</sup>

In essence, the emulation of the American experience in the party reform process was followed by the emulation of 'Clintonomics' in the first years of economic policy in the New Labour government. Winning the trust of businesses was put ahead of any immediate investment initiatives, especially in public services. Following the advice of Alan Greenspan – who should become an adviser of Chancellor Brown after he left the Federal Reserve in 2006 – monetary policy was transferred to an operationally independent Bank of England. And in fiscal policy terms, prudent public spending and sound public finances were the main concern of Tony Blair's government. By setting its priorities in this way, New Labour accepted the dominance of economic over social policy. All political measures, including social policy measures, were the product of an economic rationale.<sup>449</sup>

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<sup>446</sup> More on this in the next section of this chapter.

<sup>447</sup> Stephens, Philip (2001): *The Treasury under Labour*, in: Seldon, Anthony (ed.): *The Blair Effect: The Blair Government 1997-2001*, Little Brown, London, p. 196.

<sup>448</sup> See Giddens, Anthony (2002): *Where now for New Labour?*, Polity, Cambridge, p. 22.

<sup>449</sup> This point will be developed in more detail in the next part on New Labour's social policy.

This economic rationale also led to the somewhat strange situation that the democratically legitimised mechanisms of politics were constantly questioned as to whether they produce the desired (economic) outcomes whereas the mechanics of the business world were fully embraced without a scrutiny of their systematic shortcomings. Even sympathetic commentators such as Anthony Giddens see this as a governmental failure:

As noted earlier, Labour has successfully cemented a good relationship with business. It has done little, however, to curb irresponsible business activity or corporate profiteering. Labour has not developed a policy framework relevant to corporate social responsibility, certainly not one with bite.<sup>450</sup>

In contrast to Clinton, whose private scandals in his second term prevented him from realising his public services ideas, New Labour had the opportunity to develop its public investment programme. The 2000 Budget 'Prudent for a Purpose: Working for a Stronger and Fairer Britain' marked a turning point in New Labour's economic policy. In this budget in the build up to the 2001 election, Gordon Brown announced significant increases in public spending, especially on health and education. From a 2000/2001 perspective, it looked like the fiscal austerity of the first term was designed to create a new scope of action for the government to pursue investments in the second term.

In the budget announced in April 2002, Gordon Brown took the unpopular decision to raise National Insurance contributions by 1 per cent to finance more investment in the National Health Service (NHS). Overall public spending rose by more than 5 per cent per year in real terms. Despite the previous period of fiscal austerity and some tax increases, Gordon Brown ran the danger of breaking his own Golden Rule without further tax rises. In 2005, just after Labour's third victory, the Chancellor

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<sup>450</sup>

Giddens, Anthony (2002): *Where now for New Labour?*, Polity, Cambridge, p. 28.



adjusted the length of the economic circle rather than tax or spending rates leading to the criticism that he cheated his own rules.<sup>451</sup>

Despite the positive development of employment and growth and increased public spending in Labour's second term, there were clearly also unresolved problems. If growth was very strong compared to Britain's major industrialised competitors, the productivity gap did not narrow. This was due to a variety of reasons as a study of the Economic and Social Research Council (ESRC) found out. Compared to Britain's continental competitors France and Germany, the gap was largely due to the fact that both continental countries invest more capital per worker and the workers are better skilled.<sup>452</sup> This long-term economic problem – the productivity gap started to develop after World War II – did not change under the first two Labour administrations and did not even show signs of becoming less pronounced.<sup>453</sup>

Another problem – or at least an economic uncertainty for the future – was the fact that the high degree of domestic consumption driving the economy was to a considerable degree based on private debt. In 2004, private debt in Britain jumped over the £1000 bn mark, meaning that private debt in the UK was easily more than the GDP's of India and Brazil combined.<sup>454</sup> The increase in private debt was greatly helped by constantly high inflation in the property market and the consequent mortgage equity withdrawal<sup>455</sup> which helped to fuel consumption.<sup>456</sup>

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<sup>451</sup> See BBC Website: Brown 'cheating' claim on Budget, available at <http://news.bbc.co.uk/1/hi/business/4695823.stm>.

<sup>452</sup> See ESRC (2004): The UK's productivity gap: What research tells us and what we have to find out, p. 10.

<sup>453</sup> See Smith, David (2005): *The Treasury and Economic Policy*, in: Seldon, Anthony, Dennis Kavanagh: *The Blair Effect 2001-2005*, Cambridge University Press, Cambridge, pp. 176 sqq.

<sup>454</sup> See Toynbee, Polly (2001): Did things get better? An Audit of Labour's Successes and Failures, Penguin, London, pp. 129 sqq.

<sup>455</sup> Mortgage equity withdrawal is borrowing that is secured on the housing stock but not invested in it, so it represents additional funds available for reinvestment or to finance consumption spending.

In economic policy, the question of Europe – which has historically been a very divisive one for British post-war Prime Ministers<sup>457</sup> - became an issue again right at the beginning of New Labour's government, when the question of joining the European Monetary Union (EMU) arose. According to the same logic that applied to the establishment of the new monetary and fiscal framework, the issue of Britain joining the Euro was approached.

As Geoffrey Robinson, the former Labour MP and close colleague of Gordon Brown, remembers, the Chancellor took a rather functional view on the European question. For Brown the European issue was not a question of principle – as it was for instance for John Smith - but rather a question of rationality. Joined action on the European level is only useful if it serves British national interest. So Gordon Brown took a very careful approach to European integration, in line with the general strategy of winning trust and minimising opportunities for politically destabilising attacks.<sup>458</sup>

The question of joining the Euro incorporated two pitfalls that were potentially dangerous for the New Labour government. First, the governments of both Thatcher and Major suffered severe instability and friction over the European question and Blair's government was keen to avoid a similar situation. And second, the team around Gordon Brown – especially Ed Balls – did not want to take any economic risks either:

There were bound to be unforeseeable shocks and crises on the way. Could the system [EMU] itself withstand these; and even if the integrity of the system held, would the UK economy within it be strong enough to ride out the shocks and reap the benefits? Ed felt it would be too risky in the early stage of a Labour administration. We needed to re-establish economic stability first.<sup>459</sup>

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<sup>456</sup> See Davey, Melissa (2001): Mortgage equity withdrawal and consumption, Bank of England Structural Economic Analysis Division, available at <http://www.bankofengland.co.uk/publications/quarterlybulletin/qb010105.pdf>.

<sup>457</sup> For a detailed analysis see Haseler, Stephen (2007): Sidekick: Bulldog to Lapdog, British Global Strategy from Churchill to Blair, Forumpress, London.

<sup>458</sup> See Geoffrey Robinson (2000): The Unconventional Minister, Penguin, London, pp. 124 sqq.

<sup>459</sup> Ibid.



If there was a disagreement between Gordon Brown and Tony Blair, the latter being perceived as being more pro-European as a matter of principle, it was the Chancellor who had his way on the Euro question. In Labour's 1997 election manifesto, it was proclaimed that a government under Tony Blair would hold a referendum on joining the Euro. This was the first step to prevent any political backlash by taking the government out of decision-making and giving the power of decision to the electorate. The EMU question was further de-politicised, when Gordon Brown announced his famous five economic tests that would need to be passed before Britain could join the single currency at some later stage. The tests were:

- Whether there can be sustainable convergence between Britain and the economies of a single currency
- Whether there is sufficient flexibility to cope with economic change
- The effect on investment
- The impact on the financial services industry
- Whether it is good for employment<sup>460</sup>

As one can see without difficulty, whether these tests are passed or not is highly up to interpretation. But from this point onwards it was up to the interpretation of the Treasury rather than 10 Downing Street whether Britain is fit to join the Euro. The setting of the five tests might have been one of the political issues that caused personal friction between Tony Blair and Gordon Brown as the sensitive decision of Britain's Euro entry was effectively taken away from Blair.

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See Bulmer, Simon (2000): European policy: fresh start or false dawn?, in: Coates, David, Peter Lawler (eds.): *New Labour in Power*, Manchester University Press, Manchester, p. 246.

### **6.3 New Labour's Social Policy**

The distinction between social and economic policy in New Labour's governmental politics is not easy to make. As mentioned earlier, Labour's policy followed overall an economic logic, meaning that all policies were designed to achieve a certain economic outcome. The following paragraphs will explain this logic in more detail at the example of Labour's flagship social policies: welfare-to-work, tax credits, the minimum wage as well as the government's policies on two crucial public services: the NHS and education.

Plans for the welfare-to-work programme were announced when Labour was still in opposition and it was the first policy with a social intention the Blair government pursued in its first term of general fiscal austerity. In addition to the aim of macroeconomic stability, the welfare-to-work programme stood for the second main strand of New Labour's economic logic: providing all citizens with employment and wider economic opportunities by bringing down supply-side barriers to growth. This supply-side strategy also revealed New Labour's economic rationale for social policy because its main aim was to raise the long term economic growth potential. In doing so:

Labour's long-term policies for raising economic performance and personal prosperity (...) centred on reforming the welfare state, particularly through welfare-to-work. Welfare-to-work was part of a wider strategy aimed at making work pay, improving employability, and getting those able to work off benefits and into jobs.<sup>461</sup>

To pursue this strategy, Labour changed its old policy and made the payment of social benefits conditional. Social benefits ceased to be a citizen right but became linked to certain requirements from the individuals receiving them. Welfare-to-work

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<sup>461</sup>

Gamble, Andrew, Gavin Kelly (2001): *New Labour's economics*, in: Ludlam, Steve, Martin J. Smith (eds.): New Labour in Government, MacMillan, London, p. 176.

was a straight forward emulation of Bill Clinton's policy in the United States. A clear second order change of policy means designed to portray the change of Labour to a moderate party on welfare.<sup>462</sup>

The Welfare- to-work programme, often also called the New Deal, was especially targeted at young unemployed and set the aim of getting 250000 of them back into work during the first Labour government. Young employed had to see a civil service adviser on a regular basis and if they were still without a job after four months, the job seeker had to take one of the following four options:

- Further education of up to one year
- A job with an employer who receives government subsidies for this employment
- Work on an environmental project
- Work for a voluntary organisation<sup>463</sup>

The New Deal reflected the new balance between rights and responsibilities New Labour adopted. And the programme was so successful that it was extended also to other social groups such as disabled and people over the age of 50 in Labour's second term in office. What seemed to work for the New Deal in employment terms was a clever mixture of carrots and sticks as benefits were cut if somebody refused to take one of the four options.

In 2001, the Job Centre Plus was created. This creation was a further institutional step to combine welfare provision with the search for work as both functions were put together in the new setup. Despite some claims that general economic growth would have meant that many 'New Dealers' would have found jobs

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<sup>462</sup> See King, Desmond, Mark Wickham-Jones (1999): From Clinton to Blair: The Democratic (Party) Origins of Welfare to Work, *Political Quarterly*, Vol. 70, No.1, pp. 62-74. For a detailed analysis of the transfer of welfare-to-work see also: Daguerre, Anne, Peter Taylor-Gooby (2004): Neglecting Europe: explaining the predominance of American ideas in New Labour's welfare policies since 1997, *Journal of European Social Policy*, Vol. 14, No. 1, pp. 25-39.

<sup>463</sup> See Toynbee, Polly, David Walker (2001): Did things get better? An Audit of Labour's Successes and Failures, Penguin, London, p. 14.

anyway, the scheme certainly produced positive results and was also subject of great interest from other countries, not least Germany.<sup>464</sup>

Another policy that was designed to increase employment is the tax credit system. The Working Families Tax Credit (WFTC) was introduced in October 1998 to make sure that family income does not fall below a certain threshold. The tax credit system is in essence a negative income tax, that allows for tax relief if family income is below a certain amount. The system was developed as a non-wastable scheme, meaning that in some cases there can even be a direct state payment rather than a tax reduction. A Childcare Tax Credit (CCTC) was also introduced to help working parents.<sup>465</sup>

New Labour's tax credit system was another policy that was emulated from Bill Clinton's administration. The overall idea of a negative income tax and the integration of the tax and benefit system goes back to Milton Friedman's *Capitalism and Freedom*, first published in 1962.<sup>466</sup> The American Earned Income Tax Credit (EITC) was introduced first in 1975 but was greatly expanded by the Clinton administration in 1993. The incentive structure this system set was the main point of attraction for the New Labour government: it rewarded work instead of establishing a 'welfare for nothing' culture. Also, tax credits – as the name suggests - could be sold as a 'tax' rather than a welfare income supplement which further reduced the connotation of a

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<sup>464</sup> See Toynbee Polly, David Walker (2005): *Better or Worse? Has Labour delivered?*, Bloomsbury, London, pp. 60 sqq.

<sup>465</sup> See Annesly, Claire (2001): *New Labour and Welfare*, in: Ludlam, Steve, Martin J. Smith (eds.): *New Labour in Government*, MacMillan, London, p. 211.

<sup>466</sup> For a newer edition of the text see Friedman, Milton (2002): *Capitalism and Freedom*, University of Chicago Press, Chicago.

welfare payment. Altogether, tax credits were judged by the government as a redistributive policy that did not bring some undesired notions with it.<sup>467</sup>

After its initial introduction, the tax credit scheme entered a second phase in 2003 (announced in the 2000 Budget). The WFTC was split up into two new tax credits: the Working Tax Credit (WTC) and the Child Tax Credit (CTC). The intention of this reform was to further integrate the tax and benefit system and more money was poured into tax credits too. In the years for which there is data available, payments via the tax credit system were the second largest item of social spending, just behind the state pension.<sup>468</sup>

Despite some severe technical difficulties and inaccuracies in implementing the system – taxes are calculated on an annual basis whereas benefit payments are made weekly or monthly – the tax credit system did indeed improve the situation of low income earners. Tax credits however have the additional effect of a subsidy for low pay by employers, as in reality the state picks up a part of the wage bill. The limit to this subsidy was set by another flagship social policy of New Labour: the minimum wage.

The minimum wage was one policy where the Labour government made clear what they meant by 'balancing' economic efficiency and social justice by siding with employees rather than employers. Despite the fact that many business voices predicted the loss of jobs if a minimum wage was to become reality, the policy was implemented. It was also an 'old' Labour policy as the party had been committed to a

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<sup>467</sup>

See Davies, William (2007): Tax credits: the success and failure, *Prospect*, no. 135.

<sup>468</sup>

See *ibid.*

minimum income for almost a century. The starting rate of £3.60 which exempted young people<sup>469</sup> increased progressively up to £5.35 in October 2006.<sup>470</sup>

A study from the London School of Economics also proved that the predictions of job losses by some parts of the business community were wrong. There was no evidence of significant job losses but over one million low paid workers enjoyed a pay rise of 15 per cent on average. Overall wage inequality was still on the rise, but the spreading of wage distribution would have been broader without the introduction of the minimum wage. The minimum wage policy was also in line with the overall aim of poverty reduction by work not welfare. Some of the poorest UK households however did not benefit from the minimum wage as they did not have anyone in work. Here too rights came with responsibilities.<sup>471</sup>

Against the backdrop of the economic and social policies analysed above, how can the British welfare setup be conceptualised in general terms? In the more recent literature, the British policy mix has been described as a model *sui generis*: the Anglo-Social model. In its most general meaning, the Anglo-Social model is a hybrid between liberal and social democratic welfare policies. It seeks to combine economic performance and efficiency with social justice.<sup>472</sup>

Liberal elements of the model are the general acceptance of the market allocation of wages – only restricted by the minimum wage – without any major role for trade unions. Labour did introduce labour laws such as the Employment Relations

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<sup>469</sup> The exemption of younger employees was one of the main points of controversy. The minimum wage for 16 to 25 year olds was set to £3.00 at the start.

<sup>470</sup> See Cressey, Peter (1999): *New Labour and employment, training and employee relations*, in: Powell, Martin (ed.): *New Labour, New Welfare State?*, The Policy Press, Bristol, pp. 185 sqq.

<sup>471</sup> See Centre for Economic Performance (2005): *The National Minimum Wage: The Evidence of its Impact on Jobs and Inequality*, London School of Economics, available at [http://cep.lse.ac.uk/briefings/ea\\_draca.pdf](http://cep.lse.ac.uk/briefings/ea_draca.pdf).

<sup>472</sup> See Dixon, Mike, Nick Pearce (2005): *Social Justice in a Changing World: The Emerging Anglo-Social Model*, in: Pearce, Nick, Will Paxton (eds.): *Social Justice: Building a fairer Britain*, Politicos, London, p. 81.

Act of 1999<sup>473</sup> that strengthened the position of trade unions to some extent, but the general policy line was not to move back to the pre-Thatcher labour relations role of the unions. Labour market policies tended to empower the individual worker rather than the unions as the 2001 Employment Act further showed.<sup>474</sup> The Anglo-Social model is generally characterised by a deregulated labour market, very much like in the USA, with a large low-skill and low-income sector which causes large income inequalities. As Mike Dixon and Nick Pearce from the Institute for Public Policy Research (IPPR) argued, the polarisation of incomes is a weakness of the Anglo-Social model that needs correcting.<sup>475</sup>

On the social democratic side of the model, activating labour market policies such as the New Deal focus on reintegration into the labour market rather than the accommodation of the unemployed, as reflected in Labour's 'rights and responsibilities' agenda. Also the provision of public services, in the case of the NHS even free of charge at the point of delivery, are social democratic features of the Anglo-Social model.<sup>476</sup> In this classification again, the economic rationale for social policy becomes obvious. The question is in what way can social policy help people in the economic process? The outcomes of the economic process itself are rarely questioned. It is by and large considered a fact of life.

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<sup>473</sup> This law for instance gave workers a statutory right to union recognition where 50 per cent of employees were union members, or where 40 per cent voted in favour of union representation.  
<sup>474</sup> The 2001 Employment Act contained provisions for maternity pay as well as parental and adoption leave.

<sup>475</sup> See Dixon, Mike, Nick Pearce (2005): *Social Justice in a Changing World: The Emerging Anglo-Social Model*, in: Pearce, Nick, Will Paxton (eds.): *Social Justice: Building a fairer Britain*, Politicos, London, p. 81.

<sup>476</sup> See Meyer, Henning (2007): *Das Anglo-Sozialmodell in der britischen Realität: Trends der sozialdemokratischen Debatte in Großbritannien*, in: Matern, Michael (ed.): *Sozialdemokratie und der Europäische Sozialstaat: Impulse aus Saar-Lor-Lux*, Stiftung Demokratie Saarland, Saarbrücken, pp. 28 sqq.



In economic terms, the labour market policies of the Blair government seemed to have worked for a relatively large number of the poorest people in British society, so why is it that many commentators still voice strong criticism and huge disappointment? The answer is that New Labour's policy did indeed help some of the poorest social groups, but it did not succeed in containing overall inequality.

As described, redistributive measures were targeted at low income earners, but everything above the tax credit threshold was not subject of targeted redistributive policies. Blair's government put in a ceiling at the lower end of the economic spectrum but did very little to stop the gaps between the lower middle class and top earners widening. In result, the Labour government was the first in a generation to achieve a reduction of poverty. At the same time inequality – already on a high level - kept rising slowly.<sup>477</sup>

It has to be said that most income inequalities were created in the market economy, rather than through a reduction of the redistributive actions of the government (the effects of government redistributive policies were quite constant at 16 Gini percentage points between 1980 and 2000), but at the same time redistributive measures did not increase in the face of growing market-induced inequalities.<sup>478</sup> It is furthermore important to stress that very strong wealth inequality is also a driving force of income inequality, as much of the incomes of top earners derive from assets rather than salaries. Wealthy inequalities were not addressed politically either.<sup>479</sup>

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<sup>477</sup> See Hirsch, Donald (2004): Trends in poverty and inequality, *Progress*, no. 98.

<sup>478</sup> Ibid.

<sup>479</sup> Inequality of wealth is however a global problem. See Davies, James B., Susanna Sandstrom, Anthony Shorrocks and Edward N. Wolff (2005): The World Distribution of Household Wealth, available at <http://www.wider.unu.edu/research/2006-2007/2006-2007-1/wider-wdhw-launch-5-12-2006/wider-wdhw-report-5-12-2006.pdf>.



The tax system is the most powerful tool to redistribute wealth at any government's disposal. And it is in this area, where the government did not fight rising inequality in a way many people expected. As Mike Dixon and Nick Pearce noted, the British tax system is not progressive. Even after two Labour governments, the bottom 10 per cent pay a higher proportion of their income in tax than the top 10 per cent.<sup>480</sup> This means that in reality the tax system is regressive, so the most powerful tool for income redistribution was not used effectively. On the contrary, the design of the tax system allowed inequalities to grow.

The trend of growing inequality continued under Labour and in the financial year of 2005/2006 even poverty rose again for the first time since 1997. Inequality remained higher than Labour inherited from the Conservative government.<sup>481</sup> Overall, Labour's economically driven social policies had some success in reducing poverty but were rather ineffective in tackling rising inequalities.

Even Anthony Giddens, one of the key figures of the academic side of the Third Way and nowadays a Labour peer, acknowledged the persisting inequality problems:

Britain remains a society with too many inequalities, too many barriers to opportunity for those at the bottom (...). We can define the pursuit of social justice in a post-industrial society in terms of a number of priorities: the fight against poverty, above all child poverty; fair and equal access to education; jobs for those able to work; a welfare system in which clients are empowered; redistribution of income and wealth where they inhibit the realization of these goals.<sup>482</sup>

As analysed above, some of these areas remained problematic after two Labour administrations.

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<sup>480</sup> See Dixon, Mike, Nick Pearce (2005): *Social Justice in a Changing World: The Emerging Anglo-Social Model*, in: Pearce, Nick, Will Paxton (eds.): *Social Justice: Building a fairer Britain*, Politico's, London, p. 82.

<sup>481</sup> See press release of the Institute for Fiscal Studies: *Poverty rises for the first time since 1997*, available at [http://www.ifs.org.uk/pr/hbai07\\_pr.pdf](http://www.ifs.org.uk/pr/hbai07_pr.pdf).

<sup>482</sup> Giddens, Anthony (2007): *Over to you, Mr Brown*, Polity, Cambridge, p. 104.

#### **6.4    Public and Domestic Policy**

Similar to Labour's view on social policy, an economic logic was also followed in New Labour's approach to public services as citizens became more and more considered as consumers of these specific services rather than simply receivers. Therefore the introduction of consumer choice played an important role in the Blair government's public services approach.

In the case of the National Health Service (NHS), the Department of Health put it this way:

Choice is central to the Government's vision for the NHS. Greater choice for all patients will help ensure all patients experience an NHS that is centred on their needs. (...) The Government believes that all patients should have the advantages of choices over their healthcare. The NHS should develop as a personalised service, open to everyone. Patients value choices. We face more and more choices in our everyday lives. People expect to be involved in, and play a key role in the decisions that [a]ffect (sic!) their lives. This is as true in healthcare as in other areas.<sup>483</sup>

The choice agenda for the National Health Service was accompanied by major increases in spending by the Blair government, especially in Labour's second term. The goal Blair set was to increase the UK's health spending to the EU average. This objective was by and large achieved by the end of Labour's second term. Accompanied also by a series of institutional NHS reforms designed to create an internal market, Blair's government did accomplish improvements in health care provision. Hospital waiting times went down, more patients were treated and the NHS employed more staff. Some doubts however remained as to whether the sharp increase in public

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<sup>483</sup>

Department of Health (2003): Choice of Hospital: Guidance for PCTs, NHS Trusts and SHAs on offering patients choice of where they are treated, available at [http://www.dh.gov.uk/prod\\_consum\\_dh/idcplg?IdcService=GET\\_FILE&dID=1919&Rendition=W eb](http://www.dh.gov.uk/prod_consum_dh/idcplg?IdcService=GET_FILE&dID=1919&Rendition=W eb).

spending on the NHS could deliver corresponding outcomes or whether the expenditure increase was higher than could reasonably be spent more.<sup>484</sup>

Another public policy area where the New Labour government started with great promises was education. Here again, the economic logic driving the government became apparent. Education policy in the first term generally focussed on primary education for instance by setting targets for numeracy and literacy whereas in the second term more attention was paid to secondary and higher education. After Blair's first Education Secretary David Blunkett moved to the Home Office, after several years in charge of the department that became the Department for Education and Skills (DFES), the job was taken up by Estelle Morris, Charles Clarke and Ruth Kelly in relatively quick succession, leading to a somewhat instable operation of the DFES.

This became for example obvious when David Blunkett declared in the House of Commons, and also in Labour's 2001 election manifesto, that university top-up fees would not be introduced in Labour's second term. They eventually were introduced by Charles Clarke in Labour's second period of government. And it was the top-up fee policy, where Labour's consumer approach to public services shone through again.

In contrast to the fixed up-front tuition fees that were introduced in 1997, especially Tony Blair himself regarded top-up fees as a fairer solution to generate income for universities. This is because top-up fees would be repaid by graduates themselves after they finished university and started a job rather than by their parents when they start university. Gordon Brown in contrast to Blair favoured a 'graduate tax', which would mean a few per cent on top of the normal income tax rate for university graduates. What No. 10 did not like in the graduate tax approach was that it

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<sup>484</sup>

See Toynbee Polly, David Walker (2005): *Better or Worse? Has Labour delivered?*, Bloomsbury, London, pp. 11 sqq.

would overburden the highest graduate income earners who would, over the years, pay considerably more for the same university education than their fellow students who earn less.<sup>485</sup> And both might end up paying more over their professional career than their university education actually cost. Top-up-fees were thus in line with New Labour's consumer approach to public services, where you pay for what you get, rather than an approach that sees the financing of education – including higher education – as a task for the whole of society and thus a matter for the tax system. Even the graduate tax system is selective in this respect, as it only applies to high income earners who went to university. Top earners, such as sports or pop stars, who did not go to university, would not pay this contribution to the higher education system.

Top-up fees were one of the most controversial policies Blair pursued and it took some very strong convincing and arm-twisting by the government to push this policy through Parliament. The relationship between government and the Parliamentary Labour Party will be analysed more detailed later in this chapter.

In conclusion, New Labour's public policy approach, as the two examples of health and education policy mentioned above indicate<sup>486</sup>, was also concentrated on economic functions. In this instance however, the citizen was not subject of financial and educational incentives to be active in the economic process but the consumer who demands choice and tailored solutions in the public services he or she receives. This economic thinking in public policy led some experts to conclude that there is evidence

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<sup>485</sup> Smithers, Alan (2005): Education, in: Seldon, Anthony, Dennis Kavanagh: The Blair Effect 2001-2005, Cambridge University Press, Cambridge, p. 263.

<sup>486</sup> The very limited scope of this chapter only allowed for the description of very few health and educational policies. The 'choice for the consumer' attitude was however a general public policy guide for the government, as also the quote from the Department of Health suggests.



of a progressing marketisation of public policy in the UK.<sup>487</sup> The general marketisation tendency of public services goes along with a transfer of risk from the collective to the individual. Such a risk transfer - or increasing self-reliance as it is often put positively - does not always produce better results as a higher individual risk might stifle positive risk taking.<sup>488</sup>

One of the strategies of the Partisan Third Way was that no policy field would be surrendered to the opposing political parties. In domestic policies, especially in the field of law and order which is important to the parts of the electorate Blair wanted to win over, Labour, like the US Democrats, had the reputation of being 'soft'. This perception changed and it was a designed change. Bill Clinton's rhetoric was very sharp when he announced that it was his intention to 'punish criminals and not to explain away their behaviour'.<sup>489</sup> The formula Tony Blair developed as shadow home secretary sounded a bit more modest: 'tough on crime, tough on the causes of crime'. It at least acknowledged that there should be a twofold approach to the issue. The political intention however was the same: to win over the law and order agenda from the right-wing political opponents.<sup>490</sup>

In policy terms, the centre-piece of New Labour's first term strategy was the Crime and Disorder Act (CDA) of 1998 that concentrated on young offenders in particular. It seems that the 'tough on the causes of crime' part of Tony Blair's formula was covered by the New Deal policies to reduce youth poverty and unemployment.

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<sup>487</sup>

See for instance Hunter, David J (2004): Public Health Function Review in Northern Ireland: The Policy Context, Report commissioned by the Chief Medical Officer, available at <http://www.dhsspsni.gov.uk/publichealth-functionreviewni.pdf>.

<sup>488</sup>

See for instance Bofinger, Peter (2007): The Social Market Model in a Globalised Economy, *Social Europe Journal*, Vol. 2, No.4, pp. 167 sqq, available at [http://www.social-europe.eu/fileadmin/user\\_upload/journals/Vol2-Issue4/SocialEurope-8.pdf](http://www.social-europe.eu/fileadmin/user_upload/journals/Vol2-Issue4/SocialEurope-8.pdf).

<sup>489</sup>

See Chapter 3 for further details.

<sup>490</sup>

Parmar, Inderjeet (2000): New Labour and 'law and order', in: Coates, David, Peter Lawler (eds.): New Labour in Power, Manchester University Press, Manchester, p. 207.

The CDA focussed on 'being tough on crime' and introduced a series of new measures including amongst others:

- Fast-tracking of persistent young offenders
- Local children curfew schemes
- Reduction of age of criminal responsibility to 10 years
- Police powers against truancy
- Anti-social behaviour orders (ASBO)
- Higher penalties for racially-aggravated offences<sup>491</sup>

The perception of and debate about law and order changed completely after the 9/11 attacks in the USA, when the governments on both sides of the Atlantic desired to be seen as acting against the thread of terrorism; the 'war against terror' was born. Especially the reaction in the UK was very strong. As Bruce Ackerman from Yale University observed:

Within three months of 9/11 the Blair government rushed through a statute that made the US's Patriot Act seem mild by comparison. Under current British law, there is no need to accuse a suspected terrorist of a crime to strip him of his liberty. Recent terrorism legislation dispenses with trial by jury and the need to prove guilt beyond reasonable doubt; the government need only convince a judge – not a jury – that the detainee is probably a terrorist. Worse, the suspect can't learn of all the evidence against him.<sup>492</sup>

The 2001 Anti-terrorism, Crime and Security Act, the 2005 Prevention of Terrorism Act as well as the possible introduction of ID cards sparked a vivid debate about the right balance between civil liberties and security measures in the UK. The government seemed determined not to risk being attacked by the Conservatives for being too soft on counter-terrorism, and as a consequence potentially losing its authority on law and order it had long fought for. Most criticisms of the government's positions came from the corners of civil rights campaigners, who believed the

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<sup>491</sup>

See *ibid*, p. 209.

<sup>492</sup>

Ackerman, Bruce (2006): Before the next attack, *New Statesman*, July 3, available at <http://www.newstatesman.com/200607030036>.

government went too far in limiting personal rights. The government's law and order policies looked quite authoritarian at times.

## 6.5 Foreign Policy

Foreign policy was the determining factor for the perception of the Blair government in its second term in office. Especially the political response to 9/11 overshadowed all other policy areas. This is why the government and above all Blair personally – previously the most popular British Prime Minister since records began – became increasingly disliked despite more public spending on welfare and public services, which normally should have boosted his popularity. The following paragraphs will briefly analyse Blair's foreign policy approach. Due to the restricted space, an analysis of Labour's European policy must be largely omitted.

After the removal of Robin Cook from the Foreign and Commonwealth Office (FCO), Blair's foreign policy approach became much more personally connected to himself. Britain's position as close ally of the USA and member of the European Union, a position which Blair sought to balance by being committed to both, might have been one of the reasons for Cook's removal, who was a well-known pro-European.<sup>493</sup>

Tony Blair, who did not develop a very detailed foreign policy approach in opposition, was forced by the Kosovo crisis to set out the basis of his foreign policy. He announced his approach in a speech to the Economic Club in Chicago in 1999. His 'Doctrine of the International Community' had at its heart a description of the circumstances under which states should get actively involved in other states' conflicts. In this context Blair refined his stance on the principle of non-interference enshrined in the UN Charta. According to the British Prime Minister, there are three circumstances under which interference is legitimate: Acts of genocide, oppression producing

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<sup>493</sup>

See Hill, Christopher (2005): Putting the world to rights: Tony Blair's foreign policy mission, in: Seldon, Anthony, Dennis Kavanagh: The Blair Effect 2001-2005, Cambridge University Press, Cambridge, p. 388.



massive flows of refugees unsettling neighbouring countries and against regimes based on minority rule. Military action in reaction to any of the above mentioned circumstances should satisfy five conditions: a strong case, exhaustion of diplomatic means, the practicality of military action, contingency plans for the long term and stake of own national interest.<sup>494</sup>

Tony Blair's Chicago speech was to become the point of reference for his foreign policy, and an unusual one for that matter. As Christopher Hill observed:

It amounts to a minor revolution against the pragmatic empiricism which has dominated the language of British foreign policy since the days of Cobden, Bright and Gladstone.<sup>495</sup>

It was furthermore untypical that just before Blair set off to Chicago to deliver his significant speech, he had one of his most severe disagreements with President Clinton over how to handle the Kosovo situation. Clinton was very reluctant to commit ground troops to Yugoslavia and Blair had to use strong-arm tactics to convince him of the opposite. He even accepted that his bold tactics could backfire.<sup>496</sup>

So, in essence on what was Tony Blair's foreign policy based? His formula in other policy fields was the distinction between means and ends, between enduring political values and the means with which these values are implemented in changing circumstances. There are still considerable differences of opinion as to why Blair's foreign policy developed the way it did, but one way of looking at it is that Blair's personal moral convictions, manifested in his religious faith, played a major role. This

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<sup>494</sup> See Tony Blair's speech at the Economic Club of Chicago in 1999, available at [http://www.pbs.org/newshour/bb/international/jan-june99/blair\\_doctrine4-23.html](http://www.pbs.org/newshour/bb/international/jan-june99/blair_doctrine4-23.html).

<sup>495</sup> Hill, Christopher (2001): Foreign Policy, in: Seldon, Anthony (ed.): *The Blair Effect: The Blair Government 1997-2001*, Little Brown, London, p. 342.

<sup>496</sup> See Seldon, Anthony (2004): *Blair*, Free Press, London, p. 401.

view became increasingly more plausible in the aftermath of 9/11, when Blair emphasised the moral dimension of the war against terror.<sup>497</sup>

After the 9/11 attacks, the first military measures including the war against the Taliban in Afghanistan had wide-spread support, also from Germany amongst other countries. The dynamic of the 'war against terror' changed however when it became clear that the US administration, influenced by a circle of neo-conservative thinkers surrounding President Bush and especially Vice-President Cheney, were planning an attack on Saddam Hussein in Iraq.

Tony Blair was faced with the difficult decision of whether or not to side with the US administration, which did not care much about a multilateral solution to the Iraq question. His own foreign policy doctrine set out a sustained role for inter- and supranational institutions to deliver on his idea of an 'International Community'<sup>498</sup>, and Blair tried to reconcile this conflict by lobbying the US administration to secure UN approval for their actions in Iraq. Despite the acceptance of UN resolution 1441, the most widely held opinion – not least held by then UN Secretary General Kofi Annan – was that the Iraq war was illegal under international law as the accepted resolution did not explicitly legitimise military intervention.<sup>499</sup> Tony Blair nevertheless decided to side with the US and the rest, as the saying goes, is history.

The exact reasons why Britain almost unconditionally supported the American-led war in Iraq are still unclear. Blair's moral approach to foreign policy, also met by his fellow Christian George W. Bush, might be one of the reasons why his foreign policy

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<sup>497</sup> See Hill, Christopher (2005): Putting the world to rights: Tony Blair's foreign policy mission, in: Seldon, Anthony, Dennis Kavanagh: *The Blair Effect 2001-2005*, Cambridge University Press, Cambridge, p. 389.

<sup>498</sup> See Tony Blair's speech at the Economic Club of Chicago in 1999, available at [http://www.pbs.org/newshour/bb/international/jan-june99/blair\\_doctrine4-23.html](http://www.pbs.org/newshour/bb/international/jan-june99/blair_doctrine4-23.html).

<sup>499</sup> See BBC (2004): *Iraq war illegal, says Annan*, news report available at [http://news.bbc.co.uk/2/hi/middle\\_east/3661134.stm](http://news.bbc.co.uk/2/hi/middle_east/3661134.stm).

matched more with the Republican US President than with his Democratic predecessor. Another possible explanatory framework is Britain's 'Sidekick' strategy, that has been applied by most post-war British Prime Ministers to secure a global role for the country even after the end of empire.<sup>500</sup>

The reasons to intervene in Iraq changed over time too. The alleged link between Saddam Hussein and Al-Qaida, the danger of Iraq's Weapons of Mass Destruction (WMD) and the necessity for a regime change to free the people of Iraq were all reasons given for the war at different times. Blair's first Foreign Secretary, the late Robin Cook, stated that 'the invasion of Iraq has been the biggest blunder in British foreign and security policy in the half-century since Suez.'<sup>501</sup> At the time of writing, the Iraq crisis is still ongoing.

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<sup>500</sup> See Haseler, Stephen (2007): Sidekick: Bulldog to Lapdog. British Global Strategy from Churchill to Blair, Forumpress, London.

<sup>501</sup> The Economist (2006): The hopeful interventionist, 27<sup>th</sup> May.

## 6.6 Veto Player

As demonstrated in Chapter 2, the application of George Tsebelis' theory in the British case is straight forward as there is only one veto player: Parliament; and more specifically the governing party's majority in Parliament as the first-past-the-post electoral system tends to produce comfortable parliamentary majorities for one party. However, there are some shortcomings of Tsebelis' theory that should not be omitted.

The devolution policy introduced by New Labour set in motion a constitutional reform process that at some point might also change the set-up of veto players, especially if the House of Lords reform is pushed further and more powers are devolved to regional governmental bodies.

But even now the House of Lords can exercise important influence on policy making, although without a formal veto. It is a shortcoming of Tsebelis' theory that it neither conceptualises the important effects of pre-legislative scrutiny<sup>502</sup> – in which the House of Lords plays an important role – nor captures in what way the recent House of Lords reforms have made it a more important player in policy-making.<sup>503</sup>

Even though the House of Lords has gained influence on policy making in recent years, for the time being the House of Commons remains the only veto player capable of restricting the British government.

It is a widely held view in the academic literature that the role of Parliament in the British political system is not as strong as it should be. Since the 1960s, there have been demands to strengthen the role of Parliament in scrutinising and influencing government. Additionally to its rather weak role in the political system, parliamentary

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<sup>502</sup> See Smookler, Jennifer (2006): Making a Difference? The Effectiveness of Pre-legislative Scrutiny, *Parliamentary Affairs*, Vol. 59, No. 3, pp. 522-535.

<sup>503</sup> For further details see Russel, Meg (2007): Reform of the British House of Lords: A Test of Lijphart and Tsebelis, *Paper to the European Consortium of Political Research conference, Pisa, 6-8 September 2007*.

party behaviour historically used to be very loyalist. This changed to some degree in the 1970s, when backbenchers became more dissident. John Major's government in particular suffered from parliamentary rebellions over controversial issues such as European integration. In general however, the view that Parliament is not sufficiently strong vis-à-vis the government persisted resulting in pressure to make it more effective by the time of New Labour's election victory in 1997. Certainly in the first parliament of Blair's leadership, this enhanced role for Parliament was not realised.<sup>504</sup>

The Parliament Acts of 1911 and 1949 saw the powers of the House of Lords being curbed to the point where it effectively only had the authority to delay legislation of the House of Commons left but not to reject it. The constitutional reform process initiated by Tony Blair removed most hereditary peers from the Lords and subsequently led to a discussion about further reform steps, especially about whether the second chamber should be appointed or elected. In the two parliaments analysed here, the powers of the House of Lords however did not change much. It is thus largely irrelevant for the veto player setup.

An important institutional factor for the evaluation of the veto capacity of the House of Commons is the role of the Chief Whip, which is absent in the second case concerned in this thesis: the German political system. The role of the Chief Whip, who also has a seat in the Cabinet, is a genuinely English invention also adopted in a few other English speaking countries such as Australia and Canada. The Whip's role is to enforce party discipline in Parliament and has its origin in a nowadays banned sport: the 'whipper-in of foxhounds'.<sup>505</sup> So apart from the rather weak position of Parliament

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<sup>504</sup>

See Norton, Philip (2001): Parliament, in: Seldon, Anthony (ed.): *The Blair Effect*, Little Brown, London, p. 43.

<sup>505</sup>

See Gladstone, Viscount (1927): The Chief Whip in the British Parliament, *The American Political Science Review*, Vol. 21, No. 3, p. 519.

in the political system, the government includes a Cabinet seat whose sole purpose is to keep the parliamentary party in line.

Philip Norton, a leading commentator on the British political system, concluded that if anything Parliament was further weakened in the early years of the Blair government:

Overall, the 'Blair effect' on Parliament appeared to have been to weaken rather than strengthen it. Parliament did not suddenly become a marginal institution on 2 May 1997. It had difficulty in calling government into account before 1997. However, the institution has been further weakened during the Blair premiership.<sup>506</sup>

The data on parliamentary votes supports Norton's view: in 941 votes until June 2000, well over 90 per cent were whipped ones and in fewer than 7 per cent of the votes there was any MP voting against the whip. If there was dissent, the average number of dissenters was 21; a number that hardly had to worry a government having a 178 seat majority following the biggest election landslide in the 20<sup>th</sup> century. In Norton's view, the 1997-2001 parliament was the most loyal in the modern era.<sup>507</sup>

This picture changed to some degree in the second parliament under New Labour's rule. It looked like the government still took parliamentary support for granted but the backbenchers of the Parliamentary Labour Party (PLP) became more rebellious. This alteration of behaviour was partly due to the will to change the damaging image of Labour MPs as government loyalists not fulfilling their scrutiny function and more controversial bills being put to them. The government bills on issues such as anti-terrorism, faith schools, top-up fees and above all the Iraq war all proved to be unpopular within the PLP. On the issue of Iraq, 139 Labour MPs voted against the

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<sup>506</sup> Norton, Philip (2001): Parliament, in: Seldon, Anthony (ed.): *The Blair Effect*, Little Brown, London, p. 49.

<sup>507</sup> See *ibid.* pp. 57-58.



government causing the largest parliamentary rebellion against a government in more than 150 years.<sup>508</sup>

Some conservative commentators argued that the more rebellious mood of the Parliamentary Labour Party was also due to Tony Blair's demotion of the role of the Chief Whip by evicting the then post-holder Hilary Armstrong from the traditional Chief Whip residence in 12 Downing Street and instead putting Alastair Campbell and his media entourage in. Armstrong reportedly spent the remainder of the summer of 2001 looking for new accommodation sending the message across Whitehall that the Chief Whip was no longer important.<sup>509</sup>

But even though there were more backbench rebellions and possibly a weaker role of the Chief Whip in Blair's second term, the overall picture did not change too much:

(...) while Labour MPs became more rebellious in the second term, party discipline did not collapse. The majority of rebellions consisted of fewer than 10 MPs; those that made the whips sweat – such as those over Iraq and top-up fees (...) – remained infrequent occurrences. (...) Cohesion therefore remained the norm after 2001, with dissent the exception – and when cohesion weakened, the result was usually splinters rather than splits.<sup>510</sup>

These backbench rebellions need to be seen against the backdrop of Labour's second landslide victory in the 2001 election, resulting again in a huge Commons majority of 160 seats. Blair went through the first two parliaments under his leadership suffering not a single defeat in a whipped vote. Since the Wilson government of 1966,

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<sup>508</sup> See Cowley, Philip, Mark Stuart (2004): Still Causing Trouble: The Conservative Parliamentary Party, *The Political Quarterly*, Vol. 75. No. 4, p. 356.

<sup>509</sup> See Osborne, Peter (2004): Blair downgraded the Labour whips – and now he is paying the price, *The Spectator*, 17<sup>th</sup> January.

<sup>510</sup> Cowley, Philip, Mark Stuart (2005): Parliament, in: Seldon, Anthony, Dennis Kavanagh: *The Blair Effect 2001-2005*, Cambridge University Press, Cambridge, p. 24.

every government was defeated at least once in the Commons, so even for British standards Blair had an untroubled relationship with Parliament.<sup>511</sup>

For the British veto player setup this means that the only institutional veto power in the political system did not perform this role very effectively. This evaluation taken together with the Partnership-in-Power programme, that was designed to keep the party in line with government policies, resulted in an almost hegemonic position of the government in policy making, where neither the party nor the parliamentary group had much power to scrutinise and restrain government action.

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<sup>511</sup>

See *ibid.*, p. 41.



### ***Conclusion***

In conclusion, how can the government policies of the first two Blair governments be evaluated? It became obvious from the highlighting of selected policies, that the experience of the preceding Tory governments were an important experience for New Labour. Thatcherism developed as a Conservative elite project to deconstruct the British post-war political consensus. If it did not succeed in establishing a new political hegemony, it certainly shifted the political landscape. The Partisan Third Way had no such ambition. From the Big Tent strategy followed the sometimes difficult task of integrating different political approaches. As a vote seeking approach the Partisan Third Way had the tendency of accommodating and developing the existing political ground rather than establishing a new one.

This general tendency was also observable in Labour's governmental policies that above all were designed to win trust in the party's governing abilities rather than implementing new political projects. The acceptance of the previous government's spending plans for the first two years of Labour government, the refusal to restore most of the trade union rights lost under the Thatcher government, the establishment of Gordon Brown's new economic and fiscal framework and the tough stance on law and order all suggested that the early years of New Labour's government were a cautious accommodation to government. New additions were only a few flagship social policies such as the New Deal and the minimum wage. The government did not initiate a counter-revolution and operated on the political ground left by Thatcherism. Gerhard Schröder's soundbite of 'not doing everything differently but many things better' could also be used to characterise Labour's early governmental approach.

The policy cornerstones mentioned above were largely emulated from the Clinton administration in the United States, but the Third Way project changed in general after the Democrats lost the White House in 2000. There is a clear tendency of evolution from the first to the second Blair government. This is above all evident in the sizeable increases in spending on public services. Policy making was still driven above all by an economic logic, for example detectable in the more and more consumerist approach to public services and higher education, but the role of the state as public investor became much more active than probably any advocate of Thatcherism would have accepted. Labour in government largely realised the economic and social policies the party adopted in its process of internal change.

The area of foreign policy reveals an interesting pattern between Blair and the presidencies of Clinton and Bush. Blair was first to set out a moral based foreign policy doctrine that Clinton met with suspicion. The question of intervention in former Yugoslavia made this clear. In economic and social policy, there was comprehensive policy congruence with the Clinton Democrats as the priorities of the first Blair government showed. With George Bush, it was the other way around. Whereas there was probably never a serious discussion about emulating the Republicans economic and social policies, there was a match of the foreign policy approach after 9/11.

And it was following the American lead into the Iraq war that overshadowed Blair's premiership after 2003 until his retirement in 2007. It diverted much of the attention that would have otherwise been given to his more successful policy areas and severely damaged the reputation of the Prime Minister.

In terms of the policy-consequential veto player theory, there was no considerable force that could have prevented substantial policy change. If Blair's

government operated on the political ground prepared by Thatcherism it was out of choice not constraint.

The boundaries between the Partisan and the Governmental Third Way – although analytically important – disappeared after the main aim of the Partisan Third Way was achieved with the election victory of 1997. The Partnership-in-Power programme and the internal party reforms analysed in Chapter 4 made sure that the government was also the dominating force in the party, so the policy making systems became synchronised and were centrally run by the government.

The term Third Way itself disappeared with the end of the Democratic Presidency in the US. In Polly Toynbee's and David Walker's book *Better or Worse? Has Labour delivered?* on the second Blair government, the term Third Way is not even indexed anymore.<sup>512</sup> Third Way politics however did not disappear but evolved. Tony Blair's government became the main focus of attention as the prototype of what might be called post-Third Way social democracy.

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See Toynbee, Polly, David Walker (2005): *Better or Worse? Has Labour Delivered?*, Bloomsbury, London.

# Chapter 7

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## The SPD in the Red-Green Government

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### ***Introduction***

In the case of the SPD's Governmental Third Way, policy making restrictions are much more important than in the British case, where – as demonstrated – these are largely absent. First, in relation to the party apparatus, Chapter 5 showed that internal party reforms, which could have led to a synchronisation of party and government policy making, did not take place in the SPD. Also, the party did not accept a Third Way party programme in opposition. The Clause IV moment never happened in the SPD. Second, the German political system is much more characterised by checks and balances than the Westminster model. A thorough understanding of the veto player setup is therefore vital for the understanding of the German Governmental Third Way. For this reason, the veto players are analysed first.

After this, the starting conditions of the Schröder government will be scrutinised. In what way did the conservative heritage differ in Germany? Did Germany undergo a similar shift of the political landscape as Britain? What were the promises with which the Schröder government started?

Subsequently, the two terms of the red-green government will be analysed according to the same policy division as New Labour's governmental record was looked at. First, economic policy will be the focus of attention. Did Schröder change the political economy of Germany? If yes, how can these changes be characterised? What were the main reform priorities in social policy? For the answering of these questions a thorough examination of the policy set most associated with Schröder – Agenda 2010 – will be conducted. In terms of public and domestic policies, what priorities did Schröder's government set? And in the area of foreign policy, how was

the controversial issue of the Iraq war handled in Germany? A scrutiny of these policy areas will conclude this chapter.

In the wake of the policy field analysis, major political events that are linked to or important for the understanding of specific policy choices will be dealt with too. Why did Schröder win the 2002 election despite ongoing economic problems? Why did he call an early election in 2005 that eventually cost him his job? The course of these political events is very much linked to governmental policies and is therefore regarded in this chapter.

### 7.1 Veto Players

The German political system and the decision-making procedures within it are crucial determinants of policy making and policy change. Compared to the British case, the German system is very restrictive and characterised by a multi-layered system of checks and balances, which was purposely installed in the constitutional setup of post-war Germany. This complex structure of checks and balances however has a negative impact on the scope of policy change of any government. There is sometimes even talk of the inability to reform (*Reformunfähigkeit*) within the German system and the system itself.<sup>513</sup>

As mentioned in Chapter 2, some academic commentators concluded that because of these constitutional properties, it is almost impossible to rule Germany without a formal or informal grand coalition.<sup>514</sup> For the analysis of the Governmental Third Way in Germany, it is therefore vital to understand how this system of checks and balances works and how it restricts policy making.

First, in contrast to the United Kingdom, Germany's electoral system is based on proportional representation. In result, apart from one election victory of Konrad Adenauer in the 1950s, there has never been an absolute majority for one party since the founding of the Federal Republic of Germany. Consequently, there normally is a coalition government in office. In terms of veto players this means that there are two partisan veto players in parliament, the parliamentary groups of the two parties represented in government. Theoretically, there could of course be a coalition of more than two parties, for instance a so-called 'Jamaica Coalition' of SPD, FDP and Greens.

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<sup>513</sup> See for instance Darnstädt, Thomas (2004): Die Konsensfalle. Wie das Grundgesetz Reformen blockiert, DVA, München.

<sup>514</sup> See Schmidt, Manfred G. (2002): The Grand Coalition State, in: Colomer, Josep M. (ed.): Political Institutions in Europe, Routledge, London.

This was the coalition Gerhard Schröder sought to prevent his fall from power after the election of 2005. Since the formation period of the German party system in the 1950s however, there has not been a coalition government with more than two parties.

Second, Germany's political properties as a federal state are important. In contrast to many other federal states, the German system does not clearly discern between policies to be decided on federal, state and local level. German politics operates a complex system, in which decision-making is interdependent especially between the state and federal levels. This means that each level plays some role in the decision-making of the other. The high degree of interdependence develops a pressure to accept lowest common denominator solutions. The German political scientist Fritz Scharpf has called this system and the resulting constraints on decision-making a 'joint decision trap' and the German political system in general is often considered a consensual system, where the pressure to reach political consensus rather than the enforcement of party policies is paramount.<sup>515</sup>

Since the acceptance of the *Grundgesetz* on 23<sup>rd</sup> May 1949 this interdependence between the state and the federal level has increased considerably. In 1949, the acceptance of the *Bundesrat* - the *de facto* second chamber of parliament in which representatives of state governments take decisions on federal law – was only foreseen in 13 cases of law. Until 1980, this number had tripled and has continued to rise. Since the reform of public finances of 1969 in particular, interdependence increased as revenues from the same taxes were henceforth split between the

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See Scharpf, Fritz (2005): No Exit from the Joint Decision Trap? Can German Federalism Reform Itself?, MPIfG Working Paper 05/8, available at <http://www.mpi-fg-koeln.mpg.de/pu/workpap/wp05-8/wp05-8.html>.



different levels of government. Currently, about 60 per cent of laws and 90 per cent of the arguably most important ones need *Bundesrat* approval.<sup>516</sup>

This increasing interdependence together with the fact that there tends to be a majority of the federal opposition in the state representation shows how much influence the *Bundesrat* can potentially exercise. When the federal opposition has a majority in the *Bundesrat*, it is a serious tool to restrain the power of the government; a powerful veto player according to Tsebelis.

What George Tsebelis' veto player theory however fails to explain is strategic voting behaviour within an institutional veto player such as the *Bundesrat*. Tsebelis' point of view is that an opposition party in the second chamber would evaluate the content of the policy proposals on offer on the basis of their own policy positions and would vote in favour of a bill if there was substantial policy congruence and policy change would improve the status quo. Tsebelis calls this a 'winset'. What this approach does not recognise though is the possibility – often employed in the case of the *Bundesrat* – of strategic voting behaviour.

Even if there is a policy winset, a federal opposition party might still opt to reject a bill in order to portray the sitting government as incapable of implementing necessary laws and present itself as more capable of acting. This is essentially a conflict between policy seeking, what Tsebelis' approach is based on, and vote seeking, which might be the superior aim of a party.<sup>517</sup> As the example of the Partisan Third Way has shown, vote seeking can be the dominating political aim of a party. It is therefore no

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<sup>516</sup> See Langguth, Gerd (2000): Machtteilung und Machtverschränkung in Deutschland, *Aus Politik und Zeitgeschichte*, No. 6.

<sup>517</sup> See Merkel, Wolfgang (2003): Institutionen und Reformpolitik: Drei Fallstudien zur Vetospieler-Theorie, in: Egle, Christoph, Tobias Ostheim, Reimut Zohlnhöfer (eds.): *Das Rot-Grüne Projekt: Eine Bilanz der Regierung Schröder 1998 – 2002*, Westdeutscher Verlag, Wiesbaden, pp. 171 sqq.

surprise that opposition parties, such as the SPD during the last Kohl years, use the strategic opportunities the *Bundesrat* offers to undermine the government rather than seek policy winsets.

Also, it is too general to look at the *Bundesrat* as a static veto player. The German parties are election campaigning almost continuously because there rarely is a big time gap between state elections in the 16 *Länder*. Continuous elections on state level in turn produce new coalitions and new state governments and thus can change the voting behaviour of a particular state in the *Bundesrat*. The main political rivals on the federal level might be in a grand coalition in one or more states, causing a dilemma for voting behaviour in the second chamber. To evaluate the role of the *Bundesrat* as a veto player, it is hence important to take into account whether the law in question needs to be accepted by the second chamber and to examine the political setup of the second chamber at certain points of time. There are three categories: *Länder* with allegiance to the federal government, the federal opposition or mixed loyalties. In the case of mixed loyalties, a *Land* normally abstains from voting which *de facto* helps the opposition.<sup>518</sup>

As described in Chapter 2, the veto player theory also foresees other veto players that can come into play in certain policy areas under certain circumstances. This could be for instance the social partners – trade unions and employee associations – in the area of wage policy, where the German constitution empowers both NGO's with special rights. Also, the *Bundesverfassungsgericht*, Germany's constitutional court, can veto legislation if it is called and decides that an accepted law is unconstitutional.

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<sup>518</sup>

See *ibid.*

To sum up, the behaviour of three veto players - the SPD and Green parliamentary groups and above all the *Bundesrat* – is important in order to evaluate the Governmental Third Way and explain policy change or stasis. In particular policy areas some other veto players might be involved too. It is however very hard to judge in detail in what way policies are carved through this decision-making process, as there might be some elements in an initial proposal that were just included to be traded in the *Vermittlungsausschuss* – a committee that renegotiates bills if the *Bundesrat* rejects a proposal. There is therefore always the element of strategic behaviour to be born in mind.

## 7.2 The Kohl Heritage

Helmut Kohl, who should go on to become Germany's longest-serving Chancellor in the 20<sup>th</sup> century, assumed power when the liberal party FDP left the social-liberal coalition of Helmut Schmidt. Kohl won a constructive vote of no confidence (*konstruktives Misstrauensvotum*) in Parliament that ousted Schmidt and lifted him to the top job at the same time. At the time, the change from the very popular and admired figure of Helmut Schmidt to Helmut Kohl seemed odd and not many people thought that Kohl would be a long-term Chancellor. It also took the electorate some time to get used to Kohl's style of politics. He was widely considered to be an 'untried provincial' – coming from the rather rural state of Rhineland-Palatinate. This image also led to his inner- and outer party rivals underestimating Kohl frequently.<sup>519</sup>

In policy terms, Helmut Kohl's biggest successes were German reunification, in which he occupied a pivotal role, as well as Germany's increasing integration into the European Union. The idea of European integration was a matter of principle for Kohl. Himself being born in 1930, he experienced World War II with all its consequences in his childhood and grew up during the Cold War. These experiences made him wary of developing national power. He chose the driving of the European integration process instead to express and achieve Germany's interest, even after reunification. He expressed his view on Europe aptly in his last speech before the *Bundestag* moved from Bonn to Berlin:

*Der Bau des Hauses Europa war die wichtigste Konsequenz, die wir, die Deutschen, aber auch wir, die Europäer, nach der Barbarei der Nazizeit, nach 1945 aus dem Scheitern nationalstaatlicher Machtpolitik des 19. und 20.*

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<sup>519</sup>

See Clemens, Clay (1998): Introduction, in: Clay, Clemens, William E. Patterson (eds.): The Kohl Chancellorship, Frank Cass, London, pp. 11 sqq.

*Jahrhunderts ziehen konnten. Wir dürfen nicht vergessen, daß ohne den Weg nach Europa, daß ohne die europäische Integration die Wiederherstellung eines deutschen Nationalstaats im Herzen des Kontinents den meisten unserer Nachbarn schwer oder gar unerträglich erschienen wäre. Wir hätten sie wahrscheinlich gar nicht erreicht; denn deutsche Einheit und europäische Einigung – dieser Gedanke Adenauers bleibt nicht nur in Erinnerung, sondern hat Gewicht für die Zukunft – sind und bleiben die beiden Seiten einer Medaille.<sup>520</sup>*

In the process of German reunification, Kohl was able to portray himself as a great statesman with good political instincts. He became a personal symbol for German unity and played a crucial role in the international negotiations that led to the 2+4 Treaty. In this time, Kohl managed to leave behind party political and institutional constraints and appreciated the role of the Chancellor to the level where he became the dominant political figure. Oskar Lafontaine, the SPD candidate in the 1990 election, suffered from the rejuvenation of Kohl in the wake of German unification and eventually lost the general election of 1990, unable to convince the electorate of his sober and less emotional approach to the topic.

It is conspicuous however, that Kohl's biggest policy successes were by and large achieved outside the veto player constraints. The major decisions in the European Union are taken in the Council of the European Union, where national government representatives agree policies. Here, the governments of fellow EU member states – not Parliament or the German *Länder* - need to be convinced. This

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<sup>520</sup>

Kohl, Helmut (1998): Speech to the German Bundestag, 1<sup>st</sup> July, available at <http://dip.bundestag.de/btp/14/14050.pdf>.

Own translation:

The building of Europe was the most important consequence the Germans, but also the Europeans in general, could draw since 1945 after the Nazi barbarism and after the failure of 19<sup>th</sup> and 20<sup>th</sup> century power politics. We must not forget that without the way towards an integrated Europe, the reestablishment of a German nation state in the heart of the continent would have been hard or even impossible to accept for most of our neighbours. We probably would not have achieved a sovereign state; German unity and European unification – this thought of Adenauer must not just be remembered but has also importance for the future – are and will remain two sides of the same coin.

task was made much easier by the establishment of the close Franco-German alliance as engine for European integration.

The process of German reunification was started in the GDR by peaceful demonstrations (*Montagsdemonstrationen*) that following the main slogan *Wir sind das Volk!* (we are the people!) succeeded in developing a feeling of national unity and political change. By attaching this process very much to his own person, Kohl succeeded in creating a political dynamic that in effect made any attempt to change direction impossible, as Lafontaine found out.

His domestic record however looks different. It proved to be a mistake to promise that the costs of reunification could be born without tax rises. The blooming landscapes (*blühende Landschaften*) Kohl promised did not materialise and the knock-on effects of German unification increased political and social tensions without adequate political reactions by both main parties. As Stephen Padgett observed:

The failure of the parties to take purposeful political action to address the growing crisis of economic performance and social conflict in post-unification Germany led to the deepening of the alienation of party politics.<sup>521</sup>

In the wake of the increasing political problems, such as rising public debt and unemployment, the so-called reform gridlock (*Reformstau*) became more and more pronounced. This was partly due to the fact that Kohl did not favour a programme of radical economic reform, such as Thatcher, but continued to believe in the social market economy. Another important reason for the log-jam however was also the role of the veto player *Bundesrat*. In times of growth and healthy public finances one could possibly overcome the obstacle of the second chamber by striking deals – normally at some costs - with individual states. In times of recession however, the strategic use of

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See Padgett, Stephen (1994): *The Chancellor and his Party*, in: Padgett, Stephen (ed.): *The Development of the German Chancellorship. Adenauer to Kohl*, Hurst&Company, London, p. 73.

the *Bundesrat* becomes more attractive as there is little financial leeway to 'buy' approval in the second chamber.

In the run up to the 1998 election, commentators argued that the political log-jam was 'unbearable' and even a discussion about the legitimacy and sustainability of the German political system broke out.<sup>522</sup> It was also because of these difficult circumstances that the division of labour between Lafontaine and Schröder worked well. Oskar Lafontaine organised the political blockade in the *Bundesrat*<sup>523</sup> and Gerhard Schröder's play with the Third Way and his image as moderniser became an asset against the sitting Chancellor Kohl, who was made responsible for the political and economic problems and appeared unable to turn the tide.

In stark contrast to the British example, there are major potential constraints on the scope of action of a German government. Also, a Thatcher revolution never took place in Germany and Schröder inherited a whole series of political problems his predecessor was unable to solve. Economic performance in Britain was increasing when Blair took over. Germany was at a low without any previous adaptation to new economic circumstances. This together with the disoriented state of the SPD described in Chapter 5 gave the Schröder government a difficult task from the beginning on. Blair had substantially reformed his party in opposition and inherited a political situation where painful economic reforms – necessary or not – were already implemented. Neither of this was the case in Germany.

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<sup>522</sup> See Dürr, Tobias (1997): Stillstand, unerträglich normal, *Blätter für Deutsche und Internationale Politik*, Vol. 42, No. 10, pp. 1169 sqq.

<sup>523</sup> See *ibid.*

### **7.3     Economic Policy**

As shown in Chapter 5, the SPD election manifesto of 1998 was above all a strategic document that provided little orientation for a coherent government direction. Both – Lafontaine and Schröder – could refer to the document for their very diverse economic ideas. But if one element was determining for the first months of the red-green government, it was the personal struggle between Oskar Lafontaine and Gerhard Schröder. If the relationship between Gordon Brown and Tony Blair was troubled, the one between Lafontaine and Schröder was a disaster. The leadership aspirations of both politicians finally clashed when they were both represented in the same government rather than ruling their respective states.

Inspired by Gordon Brown, Oskar Lafontaine wanted to establish a new ‘super ministry’ for himself that, in imitation of the British Treasury, would unite the core competencies for fiscal and economic policy. Lafontaine especially minded leaving the decision on strategic economic policy to Schröder’s shadow economic minister Jost Stollmann, an independent businessman who was a member of the CDU until 1987 and never joined the SPD. Apart from preventing Stollmann – who eventually did not enter government – Lafontaine did not deny that he intended to use his position as ‘German Chancellor of the Exchequer’ and SPD chairman to make sure that the pledges made in the election manifesto – probably referring to the pledges he put in - were enacted.<sup>524</sup>

Gerhard Schröder regarded this behaviour as not just an attempt to contain his power as Chancellor but even as an effort to supersede his competencies. As he wrote in his political memoirs:

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<sup>524</sup>

See Lafontaine, Oskar (1999): *Das Herz schlägt links*, Econ, München, pp. 131 sqq.



*Oskar war entschlossen, sich im Kabinett als eine Art Schatzkanzler britischer Provenienz zu etablieren – nach dem Motto: Es ist mir gleich, wer unter mir Bundeskanzler ist.*<sup>525</sup>

In the months until his sudden resignation from all political offices in March 1999, it was Oskar Lafontaine who was able to implement his economic ideas, especially in fiscal policy. Lafontaine, himself an advocate of demand-side economics, increased public spending by 6 per cent in his first budget. Especially the social ministry was appreciated with a budget increase of 12 per cent. And the reform of tax laws foresaw the lowering of marginal income tax rates and an increase in tax thresholds. The red-green government's early tax policies were clearly targeted at stimulating domestic demand.

But there were also some attempts to increase employment. The *ökologische Steuerreform* (ecological tax reform) introduced in 1999 sanctioned environmentally unsustainable behaviour to lower contributions to the public pension insurance and thus sought to lower non-wage labour costs.<sup>526</sup>

In contrast to welfare provisions in the UK, German unemployment benefits, pensions and health services are not financed via the general tax revenue – although all three systems, above all pensions, require substantial subsidies from the general budget. All three areas operate a separate public insurance for which the premium payments are split 50:50 between employers and employees (*paritätische Finanzierung*). The sum of the contributions the employer has to pay represents non-

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<sup>525</sup> Schröder, Gerhard (2006): *Entscheidungen. Mein Leben in der Politik*, Hoffmann und Campe, Hamburg, p. 107.

Own translation:

Oskar was determined to establish himself as a kind of British Chancellor of the Exchequer in the cabinet according to the motto: I don't care who is Chancellor under me.

<sup>526</sup> See Bundesministerium der Finanzen (2007): *Ökosteuer / ökologische Steuerreform*, available at [http://www.bundesfinanzministerium.de/lang\\_de/nn\\_39840/nsc\\_true/DE/Service/Glossar/O/O\\_55,templateId=renderPrint.html](http://www.bundesfinanzministerium.de/lang_de/nn_39840/nsc_true/DE/Service/Glossar/O/O_55,templateId=renderPrint.html).

wage labour costs. High and still rising non-wage labour costs were often cited as one of the obstacles to new employment as these costs, additionally to the relatively high German wages, made jobs too expensive, especially in the circumstances of global competition.

So in sum, Lafontaine's fiscal policies were targeted at stimulating domestic demand and employment. But he did not hesitate either to get involved in monetary policy – an area that has traditionally been the domain of the *Bundesbank* and since 1999 of the European Central Bank – by demanding interest rate cuts. He saw a too inflation-focussed monetary policy as one of the reasons for the high levels of unemployment.<sup>527</sup>

Also, he was keen to change the structure of the international financial system. Lafontaine was actively campaigning for measures, including a Tobin tax, to contain speculation in the international financial markets.<sup>528</sup> Because of these interventionist ideas, the British *Sun* newspaper once called him the 'most dangerous man in Europe'.<sup>529</sup> In his efforts to regulate international financial markets, he was hoping for help from the then French finance minister and personal friend Dominique Strauss-Kahn, who however remained mute when Lafontaine went on the political attack. Gerhard Schröder's judgement was that Lafontaine failed to secure allies before storming onto the international stage with his far-reaching ideas and thus achieved mockery rather than any chance of putting his ideas into practise.<sup>530</sup>

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<sup>527</sup> See Zohlnhöfer, Reimut (2003): Finanzpolitik zwischen traditioneller Sozialdemokratie und neuer Mitte, in: Egle, Christoph, Tobias Ostheim, Reimut Zohlnhöfer (eds.): Das Rot-Grüne Projekt, Westdeutscher Verlag, Wiesbaden, p.197.

<sup>528</sup> Lafontaine, Oskar, interview with author.

<sup>529</sup> See for instance 'Red Oskar' launches plan to bring down Schröder, *The Independent*, 17<sup>th</sup> June 2005.

<sup>530</sup> See Schröder, Gerhard (2006): Entscheidungen. Mein Leben in der Politik, Hoffmann und Campe, Hamburg, p. 109.

As described in Chapter 5, when Lafontaine resigned in March 1999 the power competition in the party was resolved for the first time in more than a decade. In Schröder's government too, the power struggle was ended and the Chancellor could henceforth put his ideas into practise. As shown before, the Blair-Schröder declaration was a first attempt – though widely rejected by the party - to fill the programmatic vacuum. This short declaration however had decisive importance for the future direction of Schröder's government and at the same time symbolised the now growing distance between the party, of which Schröder became the new chairman, and his government:

*Das Papier enthielt in Ansätzen vieles von dem, was dann später in der Agenda 2010 erneut aufgegriffen werden sollte. Denn um genau diese Fragen ging und geht es auch bei deren Umsetzung. Die allseitige Entrüstung über Blair's und meinen Vorschlag verhinderte eine inhaltliche Debatte. Wieder einmal!, bin ich versucht zu sagen.*<sup>531</sup>

The frustration on both sides – government and party - began to grow when the administration moved to a decidedly different direction after Lafontaine's departure. When Hans Eichel, who was the first social democratic state minister president to lose an election under the red-green coalition, took over the finance ministry fiscal policy changed from the spending increases of Lafontaine to fiscal austerity. The reduction of public debt was henceforth the main policy aim.

Eichel's new programme *Zukunftsprogramm zur Sicherung von Arbeit, Wachstum und sozialer Stabilität*<sup>532</sup> almost entirely revoked Lafontaine's spending increases, a total volume of 30 Bn DM. In order to save this amount, the spending of

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<sup>531</sup>

Ibid., p. 276 sqq.

Own translation:

The paper contained in beginnings much of what would be pursued again later on with the Agenda 2010. The implementation of the Agenda dealt with the same questions. The all-round outrage about Blair's and my suggestion prevented a programmatic debate. Once again!, I am tempted to say.

<sup>532</sup>

Future programme to secure work, growth and social stability

every ministry was cut by 7.4 per cent. In the following years too, prudent public spending was the key objective. Consolidating the government budget was not an easy task however. Schröder's government inherited a very high deficit and, in spite of limited spending, made only slow progress towards a balanced budget.<sup>533</sup>

In German fiscal policy, policy restrictions on the budget are important to bear in mind. The European Union's stability and growth pact restricts new annual debt to a maximum of 3 per cent of Gross Domestic Product (GDP) and according to the *Grundgesetz*, the annual budget deficit must not exceed public investment. This is in fact a Golden Rule with constitutional status. The difference to Gordon Brown's Golden Rule however is that debt must not exceed investment in one year rather than over an economic cycle that leaves some room for manoeuvring and definition. If this Golden Rule is broken in Germany, the whole budget is unconstitutional. In these circumstances, it can only be accepted if the government declares a disturbance in the economic balance, with all the negative consequences for the reputation of the government this causes.

In spite of the efforts to drive down the annual deficit, Eichel did not manage to consolidate the budget in the long run. The annual deficit declined, even under Lafontaine, until the world economy slowed down in 2000. In this year the German budget was even in surplus by 1.3 per cent. In the following years however, the annual deficit became worse than even in the mid 1990s with a peak of 4 per cent in 2003.<sup>534</sup>

The policy of fiscal austerity was also widely criticised as being the cause of the budget problems, as for instance the economist and member of the government's

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<sup>533</sup> See Zohlnhöfer, Reimut (2003): Finanzpolitik zwischen traditioneller Sozialdemokratie und neuer Mitte, in: Egle, Christoph, Tobias Ostheim, Reimut Zohlnhöfer (eds.): *Das Rot-Grüne Projekt*, Westdeutscher Verlag, Wiesbaden, pp. 198 sqq.

<sup>534</sup> See Deutschland stoppt die Neuverschuldung, *Die Welt*, 18th April 2007, available at [http://www.welt.de/wirtschaft/article817854/Deutschland\\_stoppt\\_die\\_Neuverschuldung.html](http://www.welt.de/wirtschaft/article817854/Deutschland_stoppt_die_Neuverschuldung.html)

economic advisory council Peter Bofinger stated. According to his view, Hans Eichel ran into a rationality trap, the saving paradox. According to the saving paradox, saving – which can be perfectly rational on an individual basis – can on aggregate have very negative economic consequences as cumulative saving withdraws investment from the economy and therefore hinders growth and hence employment.<sup>535</sup> And indeed German unemployment remained stubbornly high and went even up to 9.5 per cent in 2004, compared to 4.7 per cent in the United Kingdom in this year.<sup>536</sup> According to Bofinger's approach, a solution for the low growth rates would have been expanding state investment to create growth incentives. The budget can then be consolidated when growth picks up and the state generates more tax income and has less social expenditure.<sup>537</sup> As it went, until the end of Schröder's government in 2005, high unemployment remained an unresolved problem.

The change of fiscal policy from Lafontaine to Eichel was not directly caused by any veto player. They would have made it very hard however to continue or return to more public spending. The partisan veto players did not pose major problems. The SPD parliamentary group and more reluctantly the party wanted to be seen as united behind their new Chancellor and the Greens – formerly a single issue party - left economic policy by and large to the SPD after their ecological footprint was implemented in the *ökologische Steuerreform*.

The *Bundesrat* however was a much more serious problem. Lafontaine's tax reform was accepted when the coalition still had a majority in the second chamber.

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<sup>535</sup> See Bofinger, Peter (2005): *Wir sind besser als wir glauben. Wohlstand für alle*, Rowohlt, Hamburg, pp. 144 sqq.

<sup>536</sup> See OECD (2006): *OECD Factbook 2006. Economic, Environmental and Social Statistics*, OECD Publishing, Paris, p. 119.

<sup>537</sup> See Bofinger, Peter (2005): *Wir sind besser als wir glauben. Wohlstand für alle*, Rowohlt, Hamburg, pp. 144 sqq.



Interestingly, Lafontaine's successor Eichel, who by that time had already lost his election, was still formally minister president of Hesse and voted in favour of the law. Later though, the government had to buy approval for their fiscal policies by striking deals with individual *Länder* and giving policy concessions to the opposition, for instance a further reduction of the top rate tax.<sup>538</sup> The policy of fiscal austerity was also much closer to the position of the main opposition parties. They therefore negotiated for a winset as the next election was still far away and fundamental opposition to policies that were close to their own ones could have backfired. Under the circumstances of opposition in the upper house, a change back to the demand-side economics of Lafontaine however seemed unachievable even if the government wanted to. It did not attempt another U-turn though.

Additionally to the objective of a balanced budget, the government introduced wide-ranging tax cuts focussed on income and corporations. Top rate income tax fell from 53 per cent in 1998 to 42 per cent in 2005, the lowest income tax rate was lowered from 25.9 per cent to 15 per cent.<sup>539</sup> These were the lowest rates in German post-war history. The increasing reduction of corporate taxation even led to a row with the Greens during the government's last year in office. The Greens, in theory more economically liberal than the SPD, rejected plans to further decrease corporate

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<sup>538</sup> See Zohlnhöfer, Reimut (2003): Finanzpolitik zwischen traditioneller Sozialdemokratie und neuer Mitte, in: Egle, Christoph, Tobias Ostheim, Reimut Zohlnhöfer (eds.): Das Rot-Grüne Projekt, Westdeutscher Verlag, Wiesbaden, pp. 208 sqq.

<sup>539</sup> See Bundesministerium der Finanzen (2004): Monatsbericht, No. 12, available at [http://www.bundesfinanzministerium.de/cln\\_02/lang\\_de/nn\\_3790/DE/Service/Downloads/Abt\\_1/28869\\_0,templateId=raw,property=publicationFile.pdf#search=%22grosse%20steuerreform%202000%22](http://www.bundesfinanzministerium.de/cln_02/lang_de/nn_3790/DE/Service/Downloads/Abt_1/28869_0,templateId=raw,property=publicationFile.pdf#search=%22grosse%20steuerreform%202000%22)

taxation because of a lack of re-financing plans. Schröder had plans to lower corporate taxation to around 20 per cent.<sup>540</sup>

Schröder's government also reanimated an old structure to increase employment, the so-called *Bündnis für Arbeit* (alliance for work). In the tradition of the *konzertierte Aktion* (concerted action), the *Bündnis für Arbeit* brought together the key players in creating employment: employer associations, trade unions and the government. The *Bündnis für Arbeit* was constituted as a permanent consultation process with the joined aim to reduce unemployment, create new jobs and increase Germany's competitiveness. The tripartite discourse started with the hope that this rejuvenated element of Rheinisch capitalism could deliver the policy impulses needed to get on top of the unemployment issue.<sup>541</sup>

The task of finding a common solution proved too difficult however, because the policies of employers and trade unions were too different to reach a consensus. The trade unions argued in favour of an investment programme to stimulate the economy. The employer associations, in contrast to this, favoured social cuts to reduce non-wage labour costs and a more flexible labour market with less rigid dismissal protection. After the ineffectiveness of the alliance became more and more apparent, the *Bündnis für Arbeit* was dissolved in early 2003 with the announcement of the Chancellor that he would now decide on necessary reforms without the involvement of the social partners.<sup>542</sup> The alliance was unsuccessful in reducing unemployment.

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<sup>540</sup> Der Spiegel (2005): Rot-Grün will Unternehmenssteuern auf 20 Prozent senken, Spiegel Online, 12th March, available at <http://www.spiegel.de/politik/deutschland/0,1518,345970,00.html>.

<sup>541</sup> See Reutter, Werner (2003): Das Bündnis für Arbeit, Ausbildung und Wettbewerbsfähigkeit, in: Gohr, Antonia, Martin Seeleib-Kaiser (eds.): *Sozial- und Wirtschaftspolitik unter Rot-Grün*, Westdeutscher Verlag, Wiesbaden, pp. 289 sqq.

<sup>542</sup> Frankfurter Rundschau (2003): Kanzler will schmerzhaft Reformen, 5. März.

The fact that unemployment remained at a very high level was the most worrying and potentially destructing fact for the Schröder government. Before taking office, Schröder announced that he would not deserve to be re-elected - and indeed would not be re-elected - if his government did not manage to reduce unemployment significantly. And in the run up to the 2002 elections, the economic situation was at least as bad as when he took office. Unemployment figures were roughly at the same level as in 1998 but the overall perception of the economic situation was even worse than back then.<sup>543</sup>

So why was Gerhard Schröder re-elected? The main factor was the emergence of two new policy fields right before the *Bundestagswahl* of 2002, which his conservative challenger Edmund Stoiber managed badly: the flood catastrophe in eastern and northern Germany and the Iraq war. The Iraq issue will be dealt with in more detail later in this chapter.

The heavy flooding of major areas and cities such as Dresden provided the Chancellor with a chance to portray his management skills. Obviously inspired by his role model Helmut Schmidt, who won widespread respect for his outstanding management of a flood in Hamburg in the 1960s, Schröder provided quick and uncomplicated help for the victims. He walked around in the flooded areas in his Wellington boots to gain a firsthand impression of the damage whilst his challenger was on holidays. This left the bitter feeling that the Bavarian Stoiber might not care much about what is going on in the eastern and northern parts of Germany. On election day, Schröder's management of these two unforeseen events saved him the election. This however did not make his economic task easier, especially in view of the

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<sup>543</sup>

See Roth, Dieter, Matthias Jung (2002): Ablösung der Regierung vertagt: Eine Analyse der Bundestagswahl 2002, *Aus Politik und Zeitgeschichte*, Vol. 40, No. 49-50, p. 10.



potent veto player *Bundesrat*. As Dieter Roth and Matthias Jung, two experts on German elections, wrote in their article titled *Replacement of government postponed*:

*Die neue Regierung wird es schwer haben, gegen eine gestärkte Opposition insgesamt und gegen die wahrscheinlich anhaltende Mehrheit im Bundesrat anderer Couleur anzukommen. Viel Mut ist gefordert, um begonnene Reformvorhaben gegen eine Vielfalt widersprechender Interessen durchzusetzen. Dazu wären Visionen erforderlich, die aus heutiger Sicht nicht erkennbar sind.*<sup>544</sup>

More than ever after the 2002 election, Schröder's government was under pressure to act against the economic malaise. And he did so with a comprehensive package of economic and social reform.

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<sup>544</sup>

*Ibid.*, p. 17.

Own translation:

The new government will have a hard time operating against a strengthened opposition and against a probably persisting opposition majority in the *Bundesrat*. It will take much courage to enforce the already begun reform ideas against a variety of conflicting interests. To do this, visions that are not detectable now, would be necessary.

#### 7.4 Social Policy

Against the backdrop of increased pressure, Gerhard Schröder presented the reform package most associated with his Chancellorship in March 2003, the so-called Agenda 2010. As with Tony Blair's government in Britain, in the case of Schröder's strategy too it was difficult to draw a line between economic and social policies. The welfare state was reformed in order to set incentives for economic activity and employment. Hence social reforms were at the same time economic policies and vice versa. For instance the wide range of proposals by the Hartz commission made this link very clear.

Schröder's widely anticipated speech on the Agenda 2010 promised to show the way of how to restructure the German economic and social setup to make it fit for global competition. Major parts of the political press criticised Schröder's *Ruckrede* (speech signalling a new departure) however as not outlining a new vision for Germany's economic and social systems. According to *Der Spiegel*, the Agenda 2010 just listed a number of cutbacks rather than a programme for a remodelled economic and social structure.<sup>545</sup>

The announcement of the Agenda 2010 also lifted the smouldering conflict between the Chancellor and his party to a new level. Fearing that the political spirit of the Blair- Schröder declaration was to become reality, the left wing of the SPD as well as trade unions started a major rebellion against the Chancellor's reform plans. Also, Schröder's old foe Oskar Lafontaine used the protest against the Chancellor to come back onto the political stage. The SPD parliamentary group – given that the red-green

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<sup>545</sup>

See *Der Spiegel* (2003): Die Ruckel-Rede, No. 12, pp. 20 sqq.

coalition only had a majority of four in their second term – became a major veto player when more than 10 rebel MPs intended to bring down the Chancellor's reform agenda.

Initially, Schröder did not intend to consult the party, whose chairman he now was, about his reform plans. Only after some left wing MPs started a *Mitgliederbegehren*<sup>546</sup> – a unique move in the party's history of almost one and a half centuries – Schröder unwillingly called in a special party conference. The party reluctantly accepted the Agenda 2010, being blackmailed that the Chancellor would step down if his reform programme was not approved. This approach gave Schröder the nickname *Basta-Kanzler*<sup>547</sup>. And even after the party's approval he still had to fear that some of his bills would not be passed in Parliament.<sup>548</sup>

But why was there such fierce resistance against the Chancellor's programme? Schröder's motto was that Germany needs to reform or it will be reformed.<sup>549</sup> As this statement and the agenda's connection to the Blair-Schröder paper suggests, Blair and Schröder had a similar outlook on the necessities of economic reform: the processes of (global) economics were seen as a given force to which national economic and social politics had to adjust. This attitude became also clear in the policy proposals included in the Agenda 2010. The agenda set out major reforms in a variety of policy areas such as the labour market, social security and health. These policy areas will be dealt with in detail throughout this chapter. In the following paragraphs, the new labour market policies will be examined.

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<sup>546</sup> This is a direct democratic mechanism in the SPD statutes with which the collection of certain number of signatures amongst party members can force the party leadership to change certain policies.

<sup>547</sup> This term symbolised Schröder's top-down approach and roughly translated means 'Chancellor, who does not accept discussions'.

<sup>548</sup> Der Spiegel (2003): Sozialdemokraten. Der große Showdown, No. 17, pp. 40 sqq.

<sup>549</sup> See Mettler, Ann (2004): Is it Springtime in Brussels for Economic Reform?, *Wall Street Journal*, 18<sup>th</sup> March, available at <http://www.lisboncouncil.net/force-download.php?file=/media/commentary/ws%20-%20springtime%20in%20brussels.pdf>.

The overall rationale for Schröder's labour market policy was to set new and powerful incentives for employment. After the failed *Bündnis für Arbeit* the Chancellor increased the pressure on the unemployed. At the core of Schröder's labour market approach were the Hartz IV laws, named after the then Volkswagen human resources director. Peter Hartz chaired a commission that initially should elaborate proposals for a more effective unemployed procurement by the government agency (*Bundesanstalt für Arbeit*). In the wake of their work however, the commission extended its scope and elaborated a comprehensive labour market reform package. The recommendations of the Hartz commission introduced a neo-liberal approach by suggesting far-reaching social cuts to set employment incentives and some structural modifications. These reforms became the Hartz I-IV laws.

Two major steps were at the heart of the Hartz IV proposals: the reduction of the length of *Arbeitslosengeld I* (ALGI) payments and the merger of unemployment and social benefits into *Arbeitslosengeld II* (ALGII). *Arbeitslosengeld I*, which is a public unemployment insurance system that takes effect before an unemployed person moves down to the benefit level, used to pay a newly unemployed person up to 60 per cent of his or her last salary for up to 32 months – depending on age and time in employment. If still unemployed after this time, a person would move to unemployment benefits, which still were calculated at their last salary (although at a much lower percentage). Also, the amount of unemployment benefits was to a degree dependent on the assets of the recipients as well as the income of their partner.<sup>550</sup>

Hartz IV fundamentally changed this system. *Arbeitslosengeld I* was henceforth only available for 12 months for people under the age of 55 and up to 18 months for

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See Heinrich, Michael (2004): Agenda 2010 und Hartz IV. Vom rot-grünen Neoliberalismus zum Protest, *Prokla*, Vol. 34, No. 3, pp. 60 sqq.

people above that age. Unemployment and social benefits were merged to *Arbeitslosengeld II* at the level of social benefits (the lowest benefit level). Also, private assets and partner income were taken into account more than previously.<sup>551</sup>

The merger between unemployment and social benefits symbolised the same approach labour market policy in the UK took: in principle, there are no unemployed people but only employment seekers and benefits should not accommodate but set work incentives. The government thought – with some justification – that having a separate social benefit system ‘administrates’ the recipients and keeps them too far away from the job market. On the other hand however, a person losing his or her job could now face the lowest social status after just one year. The social decline that comes with losing one’s job was considerably accelerated.

The pressure of taking up employment was further increased by lowering the standards of jobs an unemployed person had to accept. After the introduction of Hartz IV, basically all work was acceptable if the unemployed in question could physically and mentally cope with it. A few exceptions, such as conflict with bringing up children and caring for elderly family members, applied. Personal qualification and the quality of a job became much less important. If an unemployed person declined a job offer, his *Arbeitslosengeld II* could be cut by up to 30 per cent in the first case and up to 60 per cent in the second instance. Also, the ‘duty of evidence’ was reversed (*Umkehrung der Beweislast*) in some cases. Benefits were not paid automatically but the recipient henceforth had to prove his or her eligibility for payments.<sup>552</sup>

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<sup>551</sup>

See *ibid.*

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See NDR (2004): Hartz IV. Welche Arbeit ist zumutbar?, 6th September, available at [http://www3.ndr.de/ndrtv/pages\\_std/0,3147,OID730136,00.html](http://www3.ndr.de/ndrtv/pages_std/0,3147,OID730136,00.html).

The Agenda 2010 also introduced further structural reforms. Dismissal protection for small enterprises was relaxed and under the Hartz III law, the *Bundesanstalt für Arbeit* was restructured into the *Bundesagentur für Arbeit*. Changes that came with the restructuring were the widespread introduction of Job Centres – very similar in function to the UK Job Centres – to disentangle the competencies of the agencies that previously dealt with unemployment and social benefits separately. Also, the support for every individual job seeker should be improved by reducing the number of supervised cases per administrator.<sup>553</sup>

Even before the Agenda 2010, Hartz I and II became law. The measures included in these pieces of legislation again set more incentives for employment. They introduced Mini and Midi jobs, which made low paid work more attractive, supported self-employment with public subsidies and introduced *Personal Service Agenturen* (human resource service agencies), to make the procurement of temporary employment more effective.<sup>554</sup>

In effect, the introduction of new economic policies under the Agenda 2010 changed the basic philosophy of the German economic model in some respects. The neo-liberal approach of activating labour market policies followed the same economic logic than in the UK. The main aim was to make citizens taking part in the economic process by markedly stepping up the pressure to accept work as well as improve procurement into work. At the same time, offers for further education were

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<sup>553</sup>

See Seifert, Hartmut (2005): Was bringen die Hartz Gesetze?, *Aus Politik und Zeitgeschichte*, Vol. 41, No. 16, pp. 17 sqq.

<sup>554</sup>

See Frankfurter Rundschau (2004): Hintergrund. Hartz I bis IV, 24th July.



supported. The guiding idea of Schröder's labour market policies *fördern und fordern* (supporting and demanding) was clearly focused on the 'demanding' aspects.<sup>555</sup>

Some defining institutional aspects of the Rheinish model of capitalism however were left untouched. The corporate governance model of *Mitbestimmung* (co-determination) was not changed and also wage policy making was not modified. Wage bargaining in Germany is the competence of employer associations and trade unions. The social partners agree *Tarifverträge* (wage agreements) that are then the overall wage rule for a specific economic sector for a certain period of time. Despite the practice that in certain cases *betriebliche Öffnungsklauseln* (exception clauses on company level) allow for the avoidance of the agreed wage level, the opposition parties in Parliament pushed for a law to water down the general applicability of the *Tarifverträge*. Gerhard Schröder appealed to the social partners that they themselves should make agreements more flexible. But despite a threatening hint on one occasion, legislation to enforce increased wage flexibility was not introduced.<sup>556</sup>

The government, after a lengthy and exhausting process of convincing and arm-twisting, managed to achieve an own majority for the Agenda 2010 laws in Parliament. The Chancellor made it clear that he would not stand for any other policies. The Agenda 2010 therefore became directly linked to the personal fate of Schröder. The fact that he gave up the SPD chairmanship in early 2004 to relieve some of the political pressure was however a clear indication of how serious and tense the situation was.

The opposition parties showed opportunist tendencies in the ratification process of the reform laws. Pressing for even harder cuts and more flexibility under

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See Seifert, Hartmut (2005): Was bringen die Hartz Gesetze?, *Aus Politik und Zeitgeschichte*, Vol. 41, No. 16, pp. 17 sqq.

<sup>556</sup>

Frankfurter Rundschau (2003): Nach der Abstimmung ist vor der Abstimmung, 17th October.

the cover of the decision-making procedures, they publicly sided with the reform losers. This went even as far as Georg Milbradt – the minister president of Saxony who voted in favour of Hartz IV – publicly considering joining one of the protest marches against the law.<sup>557</sup>

In the *Vermittlungsausschuss* between *Bundestag* and *Bundesrat*, many government reform proposals were either delayed, declined or changed. The overall outcomes of the reforms were therefore often incoherent, reflecting the results of negotiation between many different and sometimes conflicting interests.<sup>558</sup>

In the general public, the Agenda 2010 had a negative reception, dividing the population into two camps: the one arguing that the reforms were too much, the others complaining that they were not enough. For the SPD as a party however, the reform agenda touched the very soul of the party:

*Programmatisch und diskursiv völlig unvorbereitet, war die Agenda ein Tabubruch in einem zentralen Identitätsbereich der SPD, vergleichbar einer Empfehlung der Union für den Schwangerschaftsabbruch.*<sup>559</sup>

As shown in Chapter 5, the SPD has had a different programmatic history than the Labour Party. Liberalism in general – and in this case neo-liberal economic policy in particular – is much more alien to German social democracy than to its British pendant. Therefore the introduction of the Agenda 2010 led to hostile reflexes, as *Der Spiegel* aptly described: ‘Den “SPD-Rebellen” (...) geht es nur am Rande um Fakten. Wichtiger sind Gefühle und Traditionen, politische Urinstinkte, die verletzt wurden.’<sup>560</sup>

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<sup>557</sup> Frankfurter Rundschau (2004): Rolle rückwärts in der Hartz Debatte, 10th August.

<sup>558</sup> See *Der Spiegel* (2003): Von allem ein bisschen, No. 52, pp. 70 sqq.

<sup>559</sup> Raschke, Joachim (2004): Rot-grüne Zwischenbilanz, *Aus Politik und Zeitgeschichte*, Vol. 40, No. 40, p. 27.

Own translation:

Completely unprepared in programme and discourse terms, the Agenda broke a taboo in a central area of identity for the SPD, comparable to the conservatives recommending abortion.

<sup>560</sup> *Der Spiegel* (2003): Sozialdemokraten. Der große Showdown, No. 17, pp. 40 sqq.



The labour market policies of the government clearly derived from a neo-liberal logic. Also, policy timing was very hard on occasions. On 1<sup>st</sup> January 2005, the Hartz IV laws took effect. On the very same day the top rate income tax was lowered to 42 per cent; as mentioned the lowest rate ever. It was hard to sell this policy mix as social justice to SPD members and the electorate.

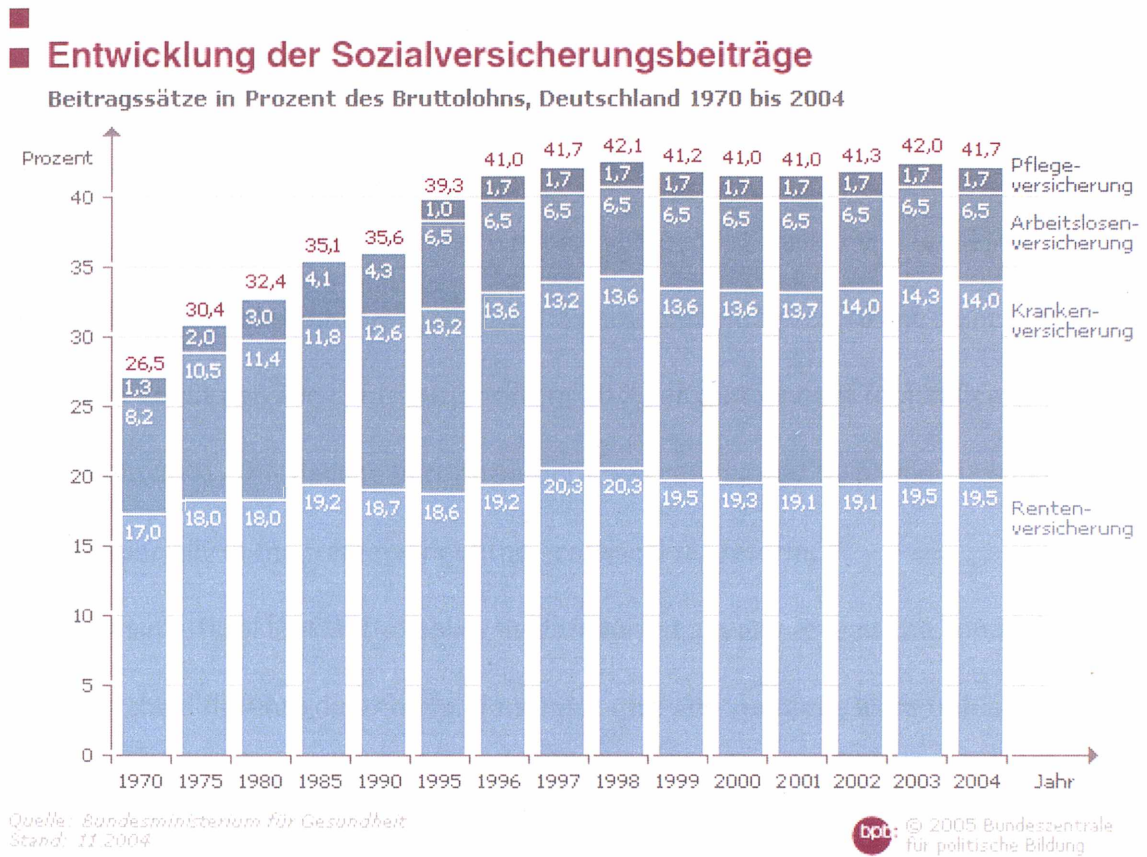
Apart from the described cuts in unemployment protection and the linkup to social benefits, the economic rationale of employment creation was also the inspiration in the reform of other social security provisions such as pensions. Above all, the management of non-wage labour costs by the containment - and if possible reduction - of social insurance contributions was the key aim. As Figure 7 shows, these insurance contributions had spiralled out of control. Partly due to the costs of German reunification, demographic change and increased costs of provision, the negative effects of non-wage labour costs of more than 40 per cent on private sector job creation could not be denied. Also, the federal budget increasingly had to subsidise social provisions, so the real costs incurred were not even reflected in the insurance premiums.<sup>561</sup>

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Own translation:

The SPD rebels are only marginally interested in facts. More important are feelings, traditions and basic political instincts that were hurt.

See Streeck, Wolfgang, Christine Trampusch (2005): Economic Reform and the Political Economy of the German welfare state, MPIfG Working Paper 05/02, available at <http://www.mpi-fg-koeln.mpg.de/pu/workpap/wp05-2/wp05-2.html#ueber1>.

Figure 7<sup>562</sup>

In the case of the German system, pensions used to be targeted at securing the general living standard of employees during their retirement. In order to achieve this, pensions were calculated on the basis of the length and amount of insurance contributions paid and were additionally linked to the salary development of active employees. When the financial basis of this generous pension system started to erode more and more, the *einnahmeorientierte Ausgabenpolitik* (income oriented spending) – rather than spending oriented at the maintenance of living standards - was introduced by the Kohl government. This in practise meant pension cuts and the

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Development of social insurance contributions. Source:  
[http://www.bpb.de/wissen/5RAYLD,0,Entwicklung\\_der\\_Sozialversicherungsbeitr%E4ge.html](http://www.bpb.de/wissen/5RAYLD,0,Entwicklung_der_Sozialversicherungsbeitr%E4ge.html).  
 The different insurances included in the figure are (top down): long term care insurance, unemployment insurance, health insurance and pension insurance. The numbers represent percentages of gross salary.

introduction of the so-called demographic factor - a variable in the pension formula that took into consideration the changed life expectancy.<sup>563</sup>

In the run up to the 1998 election, the SPD campaigned to undo the cuts Kohl introduced. And this is also what Schröder's red-green government did after the election with Lafontaine in the finance ministry: they took back the cuts their predecessors established and abolished the demographic factor. At the same time, the government cut pension contributions from 20.3 per cent when it took office to 19.1 per cent in 2001. This decline in contributions was re-financed by higher subsidies from taxes, especially in the framework of the ecological tax reform.<sup>564</sup>

A superficial look at the policy fields involved already reveals the conflicts between the different government aims: insurance contributions were reduced what in consequence created the need for increased tax subsidies. Fiscal policy at the same time aimed at lowering taxes on incomes and corporations as well as cutting down on the budget deficit. Without accelerated economic growth this combination of objectives was unrealistic.

The pension policy too changed after the departure of Lafontaine. After the system became more and more unsustainable, Schröder's government pioneered a far-reaching pension reform. Labour minister Walter Riester announced the reform plans that aimed at introducing a three-pillar system of *Alterssicherung* (old age protection). First, the public pension stopped being the sufficient tool to maintain living standards in retirement. It henceforth only offered a basic protection

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<sup>563</sup> See Streeck, Wolfgang, Christine Trampusch (2005): Economic Reform and the Political Economy of the German welfare state, MPIfG Working Paper 05/02, available at <http://www.mpi-fg-koeln.mpg.de/pu/workpap/wp05-2/wp05-2.html#ueber1>.

<sup>564</sup> See Nullmeier, Frank (2003): Alterssicherungspolitik im Zeichen der "Riester-Rente", Das Bündnis für Arbeit, Ausbildung und Wettbewerbsfähigkeit, in: Gohr, Antonia, Martin Seeleib-Kaiser (eds.): *Sozial- und Wirtschaftspolitik unter Rot-Grün*, Westdeutscher Verlag, Wiesbaden, p. 172.

(*Grundsicherung*) for old age. Cuts and the demographic factor were reintroduced.

Second, the government subsidised additional private pension insurance (*Riester-Rente*). And third, corporate pensions (*betriebliche Alterssicherung*) were given a more prominent role in the pension system. Securing one's living standard during retirement hereafter relied on the combination of these three different pensions.<sup>565</sup>

This change in the character of public pensions amounted to a decisive step towards the privatisation of pension insurance. The public pension, with contributions paid for 50 per cent by the employer and 50 per cent by the employee, was depreciated and private insurance, to be paid for by the employee only, was given a more substantial role in the maintenance of living standards. The pension reform put more responsibility and financial burden onto the individual. This can be interpreted as a second order policy change and a break of the path-dependency of the German pension tradition.<sup>566</sup>

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<sup>565</sup>

See *ibid.*

<sup>566</sup>

See *ibid.*



## 7.5 Public and Domestic Policy

The complex field of health policy followed the same dictum as the fields in economic and social policy: containment and if possible reduction of insurance contributions to reduce non-wage labour costs. A detailed account of the German health system and individual reform proposals cannot be given due to the high complexity of the structure and the limited scope of this thesis.

In general, the German health system operates a difficult self-governing structure in which players such as doctors and pharmaceutical producers enjoy plenty of autonomy and thus opportunities to circumvent government efforts to cut costs. Also, the health funds – not the government – set individual health insurance rates. So, the government had fewer options than in either unemployment or pension insurance of aligning health insurance contributions to their overall economic strategy.<sup>567</sup>

But the field of health policies is suitable to demonstrate again the veto potential of the *Bundesrat*. The major aspect of the *Gesundheitsreform 2000* was the introduction of an overall health budget (*Globalbudget*) – one competency the government enjoys – that should determine the maximum annual expenditure on health. This would have allowed for a flexible shifting of funds within the sectoral sub-budgets. This measure, which was controversial from the beginning as it could have meant playing different sectors off against each other, had to be dropped because it was clear that the upper house would reject the bill.

Other health reform measures were prepared in a way often applied in the German legislative process: the laws that did not need approval by the second

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<sup>567</sup>

See Streeck, Wolfgang, Christine Trampusch (2005): Economic Reform and the Political Economy of the German welfare state, MPIfG Working Paper 05/02, available at <http://www.mpi-fg-koeln.mpg.de/pu/workpap/wp05-2/wp05-2.html#ueber1>.

chamber were brought together in one package that was passed in the *Bundestag*. The laws needing *Bundesrat* approval were consolidated in a second package that was then negotiated with the upper house. Usually, this means that elements are dropped – as in this case -, changed or rescheduled.<sup>568</sup>

In the wake of the red-green health reforms, citizens were again asked for more individual responsibility. The usage of the public health insurance became more expensive and covered fewer circumstances. The red-green government introduced the so-called *Praxisgebühr* (practice fee) of 10 Euro per quarter for seeing a doctor. This should reduce the overall use of the health service – traditionally high in Germany – and relieve some of the financial pressure on insurance contributions. Some elements of health coverage – such as dental prostheses and sickness daily allowance – were completely taken out of the insurance cover at the end of Schröder's government.

These reform measures did however not relieve much of the financial pressure and despite the reforms and cuts in the health system, the level of health insurance contributions could only be contained (see Figure 7). The long-term containment of contributions was financed by increased subsidies from the tax revenue, especially by an increase of tobacco tax. Here as in other social insurances, these tax based subsidies were in danger of becoming self-perpetuating and thus restrain future fiscal policy.<sup>569</sup>

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<sup>568</sup> See Hartmann, Anja (2003): Die Gesundheitspolitik der rot-grünen Bundesregierung, in: Egle, Christoph, Tobias Ostheim, Reimut Zohlnhöfer (eds.): *Das Rot-Grüne Projekt*, Westdeutscher Verlag, Wiesbaden, pp. 264 sqq.

<sup>569</sup> See Streeck, Wolfgang, Christine Trampusch (2005): Economic Reform and the Political Economy of the German welfare state, MPIfG Working Paper 05/02, available at <http://www.mpi-fg-koeln.mpg.de/pu/workpap/wp05-2/wp05-2.html#ueber1>.

As the different measures taken by the red-green government failed to stop the long-term trend of rising costs and therefore contributions, more fundamental reform steps were debated at the end of the second term. The model of a *Bürgerversicherung* (citizen insurance), favoured by the SPD, foresaw the lowering of insurance contributions by the expansion of the funding base. In a *Bürgerversicherung*, also self-employed and civil servants would be part of the public insurance system. This reform idea was blocked by the opposition.<sup>570</sup> The opposition's preferred solution was the so-called *Kopfpauschale*. This system to a large degree detaches the health service from wages. Every individual pays a fixed premium and the employer contribution, which goes into a health fund, is a fixed percentage at a low level. No fundamental reform, as both of these models proposed, was enacted under the red-green government however.

In public policy, the red-green government's approach was different to New Labour. Tony Blair's government pursued a consumerist approach to public services whereas the SPD-led government did not. Schröder's health reforms introduced more competition and privatisation, however to a very limited degree. The general policy aim was to keep the financial basis of the health service at a sustainable level rather than focussing on tailored solutions for individual health service recipients. Even the major reform ideas – such as the *Bürgerversicherung* and *Kopfpauschale* – were above all focussed on the reform of the financing and not the delivery of health services.

The policy field of higher education further clarifies this difference. In this area, as in many others, policy making is split between the federal and the state level. The

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For more information about the *Bürgerversicherung* see Lauterbach, Karl (2004): Die Bürgerversicherung, Cologne University, available at <http://www.medizin.uni-koeln.de/kai/igmg/Buergerversicherung.pdf>.

federal level has only the competency to pass framework legislation (*Rahmengesetzgebung*) whereas most of the detailed policies are the domain of the *Länder*. In contrast to the policies of New Labour, both the SPD and Greens rejected the idea of general tuition fees. The maintenance of a free first degree was regarded as an investment in the human capital of society. And indeed, in the sixth higher education framework law passed in 2002, the red-green coalition government prohibited the introduction of general tuition fees.<sup>571</sup>

After it was passed, this law again became a vivid example of the German veto player structure. Six states saw this framework law as interference with their own competencies and introduced another veto player into the process: the constitutional court *Bundesverfassungsgericht*. These six states challenged the law at the constitutional court and in 2005, a final decision was taken in their favour. The prohibition of tuition fees was declared as unconstitutional. This defeat generally weakened the position of the federal government in education policies and paved the way for the introduction of tuition fees in the different states.<sup>572</sup>

The case of tuition fees shows the different approach the German government took compared to New Labour as well as the constitutional limits on the federal government's scope of action. Higher education was not perceived as a service but a public investment. As mentioned before, incoherent policy outcomes are often due to the legislative setup of the German political system. In this particular case, the outcome was the exact opposite of what the government intended.

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<sup>571</sup> See Henkes, Christian, Sascha Kneip (2003): Die Bildungspolitik der rot-grünen Bundesregierung, in: Egle, Christoph, Tobias Ostheim, Reimut Zohlnhöfer (eds.): *Das Rot-Grüne Projekt*, Westdeutscher Verlag, Wiesbaden, p. 294.

<sup>572</sup> *Süddeutsche Zeitung* (2007): Aus der Hand geben; Der Bund will das Hochschulrahmengesetz abschaffen - die Länder bekämen noch mehr Macht, jubeln aber nicht, 30th April.



The area of law and order policies was not a main area for the red-green government. This was partly because the focus of attention was clearly on economic and social reform and because – similar to educational policies – the German states enjoy comprehensive competencies in domestic policies. Some federal government initiatives such as the expansion of citizenship rights were watered down due to intervention by the states.<sup>573</sup> A deeper analysis of domestic policies however does not provide further insights for the governmental Third Way comparison between the SPD and Labour. But it is yet another example of how the veto player setup can constrain federal action.

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See Busch, Andreas (2003): Die Innen- und rechtspolitik der rot-grünen Koalition, in: Egle, Christoph, Tobias Ostheim, Reimut Zohlnhöfer (eds.): Das Rot-Grüne Projekt, Westdeutscher Verlag, Wiesbaden, pp. 319 sqq.

## **7.6 Foreign Policy and the End of the Red-Green Government**

In the domain of foreign policy, the red-green government introduced wide ranging changes.<sup>574</sup> The modification of Germany's foreign policy approach however had nothing to do with the Third Way or the emulation of British or American foreign policy. They were moreover determined by a departure from Germany's very specific post-war path-dependency. Gerhard Schröder – born in 1944 - was the first German Chancellor who did not have any personal recollections of World War II. With this change of generations came also the acceleration of a process that had already started since Germany regained full sovereignty following reunification:

German foreign policy has been transformed more fundamentally since unification in 1990, with German leaders having progressively evolved their country's international goals from an almost exclusive focus on Europe to an increasingly global outlook that embraces political, economic, and security interests.<sup>575</sup>

The widening of Germany's strategic foreign policy objectives – sometimes also referred to as the 'normalisation' of German foreign policy – led to the participation in military interventions for the first time in German post-war history. The clear break with the pacifist post-war tradition came with the German involvement in the NATO mission in former Yugoslavia. The intervention, which was not covered by a UN mandate, was preceded by a tough debate. Especially for the Green Party, that has a very strong pacifist tradition, the decision to send German troops into out-of-area missions proved very difficult.

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<sup>574</sup> For a detailed account on German foreign policy under the red-green government see: Maull, Hanns W., Sebastian Harnisch, Constantin Grund (eds.) (2003): Deutschland im Abseits?: Rot-grüne Außenpolitik 1998 – 2003, Nomos, Baden-Baden, Harnisch, Sebastian, Christos Katsioulis, Marco Overhaus (eds.) (2004): Deutsche Sicherheitspolitik. Eine Bilanz der Regierung Schröder, Nomos, Baden-Baden.

<sup>575</sup> Karp, Regina (2005): The New German Foreign Policy Consensus, *The Washington Quarterly*, Vol. 29, No. 1, p. 61.

In the new millennium, the attacks of 9/11 completely changed the landscape of international politics to which also Germany had to react. After a NATO member country – the USA - was attacked for the first time, Germany was also called to fulfil its obligations as a NATO member. Gerhard Schröder, who promised the Americans ‘unconditional solidarity’ after the attacks, a month later announced that Germany has a ‘new responsibility’ in foreign policy that would also involve the use of military force.

In more concrete terms, this meant German military participation in the operation ‘Enduring Freedom’ in Afghanistan. As was the case with the Yugoslavia intervention, the Greens again were fundamentally divided over whether or not to use the German army *Bundeswehr* in response to the new terrorism threat. Gerhard Schröder linked the vote on participation in ‘Enduring Freedom’ to a personal vote of confidence in parliament. He thus forced the decision through by putting the continuation of his government on the line; a mechanism that, as shown, was also used in other policy fields.<sup>576</sup>

That ‘unconditional solidarity’ for Schröder however did not mean unconditional support in every action became clear in the run up to the Iraq war. The German government from the beginning on questioned the alleged link between the terrorist attacks in New York and Washington and the intervention in Iraq. It was because of the lack of evidence and the unpopularity of the war that Gerhard Schröder decided not to participate in any ‘military adventure’ in Iraq.

Without a doubt, the Chancellor used the issue in the 2002 election campaign against his conservative challenger who favoured an approach that did not exclude any option from the beginning. The Iraq issue also deeply divided Europe, with Britain

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<sup>576</sup>

See Pfetsch, Frank (2003): Die rot-grüne Außenpolitik, in: Egle, Christoph, Tobias Ostheim, Reimut Zohlhöfer (eds.): Das Rot-Grüne Projekt, Westdeutscher Verlag, Wiesbaden, p. 385.

providing almost unconditional support for US policy and Germany and France being fundamentally opposed.

What were the major changes in foreign policy under Schröder? In general terms, the use of military power by a German government became acceptable again under the red-green government. This represented a clear break with the German post-war tradition but was at the same time a logical consequence of the normalisation process of German foreign policy that started with reunification. The use of military force was however controversial and not granted under all circumstances, as the Iraq case has shown. The normalisation process is still ongoing.

Despite the election victory of 2002, the red-green government came to an early end. As a result of the unpopular economic and social policies, the SPD had lost many state elections since assuming office in 1998 and deteriorated in opinion polls. This tendency culminated in the elections in North Rhine-Westphalia in 2005. In the most populous state of Germany – and a traditional heartland of social democracy – the SPD suffered the worst election result in half a century and lost power as a consequence. The last red-green coalition in office in any German state was thus deselected.

This election defeat made the political situation for Schröder's government so bad it reached breaking point. On the very same evening, the Chancellor announced early elections and there was little else he could have done. The loss of the social democratic heartland after almost 40 years in office would have worsened the friction between the Chancellor and his party as well as the pressure for a change of governmental policies even further. Also, the fact that the votes of North Rhine-Westphalia in the *Bundesrat* went to the opposition enlarged the veto potential of the

upper house. Losing the last save votes in the second chamber, the opposition parties came even close to a two thirds majority. This majority would have meant the power to block any legislation, not just the laws that needed second chamber approval.<sup>577</sup> Complete veto power was only prevented by the fact that Schleswig-Holstein was not completely lost but was governed by a grand coalition after the SPD was defeated in this state election too. Nevertheless, the scope of action vis-à-vis the *Bundesrat* became minimal.

Schröder's reform policies in the setting of the German political system had led his government to a dead end. And he knew that the bad election results were a vote of no confidence for his reform policies. When announcing the election, Schröder declared: *„Mit dem bitteren Wahlergebnis für meine Partei in Nordrhein-Westfalen ist die politische Grundlage für die Fortsetzung unserer Arbeit in Frage gestellt.“*<sup>578</sup>

His policies had detached Schröder from his demoralised party and expected of the SPD's electorate more than it could chew. The permanent conflict with his party and the difficult legislative process had worn his government down to the point where it was almost incapable of action. A renewed mandate from the people seemed the only solution to rejuvenate the reform process Schröder started. He narrowly lost the early elections in 2005 however.

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<sup>577</sup>

See Der Spiegel (2004): Ruhe auf der Reformbaustelle, No. 18, p. 28.

<sup>578</sup>

DIE ZEIT (2005): Schröder will Neuwahlen im Bund, 22nd May, available at <http://www.zeit.de/2005/21/neuwahlen>.

Own translation:

With the bitter election result for my party in North Rhine-Westphalia, the political basis for the continuation of our work is questioned.

### ***Conclusion***

How can the Governmental Third Way of the SPD be characterised and how does it compare to the Labour Party? First, this chapter has shown how different political systems can restrict or constrain policy outcomes. For the comparison of the Third Way in government, it is therefore vital to analyse the different political settings to explain a similar or diverging policy outcome. In the case of the red-green government the political system had limited the scope of action from the beginning and prevented more radical breaks from path dependencies, as for instance in health policy.

As analysed earlier, the Partisan Third Way differed considerably between the Labour Party and the SPD. The Governmental Third Way had more similarities. In economic and social reform in particular, New Labour and Schröder's government – as the Chancellor himself stated – pursued policies based on the same logic of making the political economy of their respective countries fit for global competition. This in essence meant accepting the primacy of the economy over any other political aims. In the case of Germany this resulted in hard cuts in social provisions to prevent non-wage labour costs from rising and more individual pressure and responsibility in finding employment. The New Labour economic logic had been emulated in the German context although the individual policies looked quite different. These differences however depended on the different policy necessities caused by the dissimilarities in the political economy and welfare system.

Also, the starting conditions of both governments were quite different. Whereas New Labour inherited a political economy with low social standards and investments, the SPD had to deal with a largely unreformed system suffering from

unsustainable financial burdens. Labour, especially in its second term, could increase investments, whereas Schröder's government had to introduce cuts and restrictions to prevent public finances from becoming even worse. The problem of unemployment however could not be solved under the red-green government. Economic growth did not pick up either.

The similarities between Labour and the SPD ended when it came to public and foreign policy. The consumerist approach favoured by New Labour was not adopted by the red-green government as the examples of health and higher education policies showed. Also in foreign policy, the specific German history and foreign policy approach was the determining factor for the new developments under Schröder. Other than in economic and social policy, there was no common Third Way idea detectable.

A decisive factor in the evaluation of the German Third Way experience is also the relationship between the party and the government. The SPD as a party rejected the Third Way input – defined as the introduction of a neo-liberal economic logic – and therefore rebelled when exactly this logic was introduced into the policies of the red-green government. The growing distance between party and government was a decisive factor for the decline of the Schröder administration.

In electoral terms too, the story looks very different in the UK and Germany. Tony Blair managed three successive election victories whereas Schröder only managed to get re-elected in 2002 under exceptional circumstances and then had to call an early election which he lost in 2005. The policies of the Agenda 2010 were electorally very unpopular. This electoral decline together with the opposition of his own party led Schröder's government into a dead-end where he could only attempt to regain momentum with a renewed mandate. According to some commentators, calling

an election under these circumstances was to 'commit suicide out of fear of death'.<sup>579</sup>

The lost election of 2005 was the end of the red-green coalition.

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<sup>579</sup>

Die Welt (2005): Rot-Grünes Endspiel, 15<sup>th</sup> September.



# Chapter 8

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## International Third Way

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### 8.1 Anthony Giddens' Third Way and the Intellectual Debate

The category of the International Third Way comprises the Progressive Governance Network - where government politicians and political thinkers meet - and the intellectual debate about the Third Way that was mainly based on Anthony Giddens contributions.<sup>580</sup>

Even though these two strands have quite different characteristics, as will be shown in the course of this chapter, they together can be called International Third Way as they are both international in nature. This category must be regarded in opposition to the Partisan and Governmental Third Ways, which, as demonstrated, had very different national characteristics.

First in this section, Anthony Giddens' Third Way and the intellectual debate will be analysed. In 1998, Anthony Giddens probably made the single most important contribution to the intellectual debate about the Third Way with his book *The Third Way: the Renewal of Social Democracy*. His main aim was, as the subtitle suggests, to contribute to the ongoing international debates about the renewal of social democracy. For Giddens, this contribution had nothing specifically to do with Tony Blair, Bill Clinton, a political party or even the term Third Way.<sup>581</sup> His account aimed at sketching out a viable political philosophy rooted in social democratic values providing political answers in a world that had substantially changed.<sup>582</sup> Because the nature of many modern political challenges is international, the intellectual debates about

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<sup>580</sup> Further contributions of relevance are also Giddens, Anthony (2000): The Third Way and its Critics, Polity, Cambridge, Giddens, Anthony (ed.) (2001): The Global Third Way Debate, Polity, Cambridge, Merkel, Wolfgang, Christoph Egle, Christian Henkes, Tobias Ostheim, Alexander Petring (eds.) (2006): Die Reformfähigkeit der Sozialdemokratie. Herausforderungen und Bilanz der Regierungspolitik in Westeuropa, Verlag für Sozialwissenschaften, Wiesbaden, Cuperus, René, Karl Duffek, Johannes Kandel (eds.) (2001): Multiple Third Ways. European Social Democracy facing the Twin Revolution of Globalisation and the Knowledge Society, Friedrich Ebert Stiftung, Wiardi Beckman Stichting, Renner Institut.

<sup>581</sup> Indeed, for some time he plainly wanted to call the book 'The Renewal of Social Democracy'.

<sup>582</sup> See Giddens, Anthony, interview with author, 20<sup>th</sup> September 2005.

political answers necessarily needed to be international too. As there are no universal answers to these issues, the wider the debate the more valuable it is. In this respect, the choice to name his book *Third Way* was to a degree misleading as Giddens' work became more associated with the New Democrats, New Labour, Clinton and Blair than was perhaps intended.<sup>583</sup> At any rate Giddens' contribution became the starting point of the international debates under the label 'Third Way' that will be scrutinised in more detail here. In order to do so, Giddens' Third Way ideas need to be briefly introduced.

According to Giddens, the assessment that social democracy needed a programmatic renewal was not new. The need emerged at the end of the 1970s with the end of the welfare consensus.<sup>584</sup> This line of argument is consistent with the observations of Lord Dahrendorf, himself a former member of the German social-liberal government of the 1970s and nowadays peer for the British Liberal Democrats, who as early as 1980 stated the end of (old) social democracy and predicted a development of social democratic parties towards the political centre.<sup>585</sup>

On the basis of comparison between old social democracy and neo-liberalism, that according to Giddens both failed to provide the necessary answers to new political problems, he positioned the Third Way as an alternative beyond left and right<sup>586</sup> and as a credible social democratic answer to the five major issues making the adjustment of social democratic politics necessary (see Figure 8).

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<sup>583</sup> Giddens was often described as Tony Blair's 'guru'. See for instance Bensaid, Daniel (1998): How left is left in Europe? New Centre, Third Way, *Le Monde Diplomatique*, December.

<sup>584</sup> See Giddens, Anthony (1998): *The Third Way. The Renewal of Social Democracy*, Polity, Cambridge, p. vii.

<sup>585</sup> See Dahrendorf, Ralf (1980): *After Social Democracy*, Unserville State Papers, London, p. 19.

<sup>586</sup> See also Giddens, Anthony (1995): *Beyond Left and Right. The Future of radical politics*, Stanford University Press, Stanford.

**Figure 8**<sup>587</sup>

1. **Globalisation:** What exactly is it and what implications does it have?
2. **Individualism:** In what sense, if any are modern societies becoming more individualistic?
3. **Left and Right:** What are we to make of the claim that they have no meaning anymore?
4. **Political Agency:** Is politics migrating away from orthodox mechanisms of democracy?
5. **Ecological Problems:** How should they be integrated into social democratic politics?

As regards content, a large part of Giddens book rests on the same values also articulated in the context of the New Democrats and New Labour. He put forward the same idea of equality as equality of opportunities rather than equality in result. Furthermore, he argued for a concept called the 'New Mixed Economy' where the dynamism of the markets is used to generate more synergy effects in areas that were formerly dominated by the state. The state is mainly seen as an enabling power, the social security systems as a way to get people back to work rather than just a protective measure, and the Third Way idea of rights and responsibilities was also incorporated in Giddens' account.<sup>588</sup> In these respects, the political ideas were similar to what became the basic philosophy of the New Democrats and New Labour.

However, for the analysis conducted in this thesis, it is crucial to point to the arguments that Giddens' academic account includes and the political rhetoric of neither the New Democrats nor New Labour does.<sup>589</sup> These arguments are essentially concrete policies originating from logically 'thinking through' the implementation of the Third Way value basis. Here, there are essentially two aspects to mention.

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<sup>587</sup> Anthony Giddens (1998): The Third Way. The Renewal of Social Democracy, Polity, Cambridge, p. 27.

<sup>588</sup> See *ibid*, pp. 69 sqq.

<sup>589</sup> Third Way politicians mentioned some of these policies on occasion, mostly to appease the left wing of their respective parties. These policies however never received programmatic status and were not pursued in practise.

First, the concept of 'social inclusion' that is the prerequisite for strong communities and equality of opportunities, faces forces in modern societies that work against it: meritocracy and social inheritance. Giddens makes the point that establishing 'equality of opportunity' does require policies of redistribution, especially across generations.<sup>590</sup>

(...) redistribution is necessary because life-chances must be reallocated across the generations. Without such redistribution, one generation's inequality of outcome is the next generation's inequality of opportunity.<sup>591</sup>

According to Giddens, this misallocation must be addressed and corrected, even if this results in the use of unpopular means such as a rise of inheritance tax.<sup>592</sup>

Second, he also tackled the economic instabilities arising from unregulated international capital markets – the Third Way was written shortly after the East Asia currency crisis - and set their regulation at the very top of the political agenda:

The regulation of financial markets is the single most pressing issue in the world economy (...). Here as elsewhere deregulation is not the same as freedom, and a global commitment to free trade depends upon effective regulation rather than dispense with the need for it.<sup>593</sup>

So, in contrast to the rhetoric of Third Way politicians, the traditional social democratic concepts of redistribution and effective regulation of the economy, securing political hegemony over the otherwise anarchic nature of the world economy<sup>594</sup>, is still at the very heart of Giddens' Third Way thinking.

And it are these aspects in particular, that made Giddens' intellectual Third Way appealing to a wider group of social democrats, as shown at the example of Oskar

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<sup>590</sup> See also Giddens' quote in Chapter 6, p. 217.

<sup>591</sup> Giddens, Anthony (2000): *The Third Way and its Critics*, Polity, Cambridge, p. 89.

<sup>592</sup> See also Giddens, Anthony (2004): We can and should take action if the earnings of the rich set them apart from society, *New Statesman*, Special Issue, 27<sup>th</sup> September.

<sup>593</sup> Anthony Giddens (1998): *The Third Way. The Renewal of Social Democracy*, Polity, Cambridge, p. 148.

<sup>594</sup> See Giddens, Anthony, interview with author, 20<sup>th</sup> September 2005.

Lafontaine in Chapter 5. Hence, with Giddens' contribution and the following intellectual debate the scope of the Third Way label widened beyond the reforms of the US Democrats and New Labour and the politics of Clinton and Blair, adding to the feeling of Third Way indefiniteness.

Giddens' addition of the regulation of international financial markets and the possible introduction of a Tobin Tax<sup>595</sup> to the debate turned the Third Way political rhetoric of 'good policies are the policies that work' on its head: even knowing that the international political setup, especially after the election of George W. Bush, did not allow for the implementation of these measures – so the policies would not work – in the face of the political problems they might nevertheless be 'good' means. This is the difference, as Giddens argued, between political ideas and the mechanics of politics. The ideas might be right even if unimplementable in certain contexts at a certain time. The intellectual debate was concerned about political ideas rather than the political mechanics.<sup>596</sup>

There are also other problems that result from 'thinking through' the Third Way into concrete policies. Commentators such as Michael Ehrke from the Friedrich Ebert Foundation rightly criticised that without concrete policies the principles of justice and equality of opportunity do not mean anything in practice.<sup>597</sup> Hence it depends on the way the policies of the Third Way reflect these values. And as demonstrated in Chapter 6 and 7, different political traditions and economies require different policies. A real

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<sup>595</sup> This levy, named after its inventor and Nobel Prize winner James Tobin, charges taxes or fees on financial transactions. The overall aim is to obstruct speculative short term financial investments.

<sup>596</sup> See Giddens, Anthony, interview with author, 20<sup>th</sup> September 2005.

<sup>597</sup> See Ehrke, Michael (1999): Revisionism Revisited. The Third Way and European Social Democracy, International Policy Analysis Unit, Friedrich Ebert Stiftung, Bonn, pp. 14 sq.

distinction between means and ends is thus not possible. This is the point where the intellectual debate voices much clearer ideas than the other Third Way dimensions.

There are also contradictions in the implementation of some Third Way policies. As Bill Clinton's Secretary of Labor Robert Reich observed, a fact that is often omitted is that enabling social policies cost more money than traditional models of welfare. He remembered that when the first 'welfare-to-work' proposals came out, the Clinton administration noticed that these plans would cost 2 billion Dollars more than previous welfare arrangements because extra money was needed for job training, child care, health care, etc. There were only two possible alternatives in order to raise the needed additional funds: either the state increases the public deficit or raises taxes. Both options are contrary to the other Third Way aims of balanced budgets and limiting tax burdens. Taxing and spending, the very label the Third Way aspired to overcome, is needed to implement far-reaching enabling social policies. Reich therefore commented that the initial welfare-to-work plans were a political non-starter – even if they were desirable in policy terms.<sup>598</sup>

This paradox represents a major problem for the applied Third Way as it jeopardises its distinction from neo-liberalism. If the state does not possess the necessary capabilities to provide the possibility for upward social mobility and regulate the economy, there is no meaningful distinction between the Third Way and neo-liberalism left.<sup>599</sup>

This can be seen at the Governmental Third Way, where the economic reforms of Schröder accelerated downward social mobility in the case of job loss by the

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See Reich, Robert (1999): We are all Third Wayers now, *American Prospect*, Vol. 10, No. 43.

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See Ehrke, Michael (1999): Revisionism Revisited. The Third Way and European Social Democracy, International Policy Analysis Unit, Friedrich Ebert Stiftung, Bonn, pp. 4 sqq.

introduction of significant cuts. Also Blair's policies – despite increased public spending – did not provide high levels of upward social mobility, as Giddens himself judged.<sup>600</sup>

Also in terms of effective regulation of international financial markets, it was Oskar Lafontaine – and neither Blair nor Schröder – who attempted to do just that. Blair and Schröder accepted the given, largely unregulated financial framework and did not push for changes. The policy seeking intellectual Third Way debate thus went beyond what was pursued by Blair and Schröder in office. And it was in the core social democratic areas – economic regulation and redistribution – where Giddens' ideas went significantly beyond governmental practice. Against this backdrop, it becomes even more apparent that the Governmental Third Way in the two cases studied here was predominantly neo-liberal in the areas of social and economic policy.

Another question that is worth asking is whether, as often claimed, the Third Way is really the second major revisionism of social democracy. The answer to this question highly depends on how revisionism is defined. One definition goes as follows:

We have to accept the essential revisionist premise that policies exist to be revised in the light of changing circumstances. Revisionism can be better understood as a cast of mind. The revisionist account of one generation is the orthodoxy of the next, requiring a new revisionism to test it against changing circumstances, keeping ossification at bay.<sup>601</sup>

Based on such an understanding of revisionism, which is undoubtedly credible, the Third Way can be regarded in the tradition of revisionism. This also means however, that any change no matter in what direction can be seen as revisionism as long as it is portrayed as a modern political solution to changing circumstances. The

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<sup>600</sup> See again Giddens' quote in Chapter 6, p. 217.

<sup>601</sup> Diamond, Patrick (2004): Introduction, in: Diamond, Patrick (ed) (2004): New Labour's Old Roots, Imprint Academic, Exeter, p. 17.



notion of 'permanent revisionism'<sup>602</sup> also implies that the need for policy revision never stops leading to indistinctness of political orientation.

There is however an alternative way of looking at this question. If one takes the characteristics of classic revisionism starting with Eduard Bernstein and finally becoming accepted in the 1950s and 1960s as departure point for the question whether the Third Way is a new revisionism, one arrives at a different conclusion. As explored earlier in this thesis, revisionism developed as an intellectual critique of revolutionary socialism, which at its core sought to change the role of the democratic state in social democratic politics. The insight was that the democratic state can be used as an agent for the improvement of working conditions and that the claim of the inevitable impoverishment of the working class in a capitalist system was unfounded. This eventually led to a refined view of the state – if not to a positive state theory as Schumacher noted - as a means to achieve social progress and to the mixed economy, where the benefits of the market are enjoyed and the downsides are contained by effective regulation of the economy, including a just redistribution of economic gains.

This set of ideas – the state as means for social progress and effective regulator, the mixed economy and redistribution of economic benefits – became inseparable linked to 'revisionism'. Hence another credible approach to the question whether the Third Way is a new revisionism is whether these characteristics are maintained. If approached from this angle, it is much more doubtful to portray the Third Way as new revisionism. Anthony Giddens' Third Way can be seen in this tradition, as it does not dispense with the need to regulate the economy and

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See for instance Diamond, Patrick (2004): Permanent reformism: the social democratic challenge of the future?, in: Policy Network (ed.): Where now for European Social Democracy, London, pp. 31 sqq.

redistribute wealth. The Partisan Third Way however has a completely different genesis than revisionism. It was not an intellectual critique of a given political programme but an vote seeking electoral strategy. The implemented programme is for this reason intentionally vague or even – as shown earlier - contradictory.

Because of the specific relationship between socialism and liberalism in the Labour Party<sup>603</sup>, the Third Way can be seen as in the tradition of New Liberalism and the progressive alliance. The idea that it reflects another stage of revisionism is therefore much more plausible than in the circumstances of the SPD, where it was not adopted as party policy in the first place and even if it was, it would have been a much clearer break with mainstream political tradition than in the case of the Labour Party.

In general, a fundamental question is what the relationship between the Partisan Third Way and the Governmental Third Way on the one hand and the intellectual debate about the Third Way on the other hand is like. The answer to this question is that the intellectual debate about the Third Way is detached from the actual Third Way in practise.

One key feature of the Partisan Third Way is its vagueness on policies with which its values can be realised. There are political reasons for this. As especially the examples of the New Democrats and the Labour Party have shown, the Partisan Third Way is driven by the absolute desire for electoral success first and only then the need to develop a set of policies or values that provide answers to new political problems.<sup>604</sup> Here lies a clear difference to Giddens' contribution that is based on an analysis of the political problems rather than the electoral circumstances. The Third Way is primarily presented as a set of political solutions. Areas are addressed that normally would not

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<sup>603</sup> See Chapter 4 for further details.

<sup>604</sup> See also From, Al, interview with author, 16<sup>th</sup> December 2003.

be addressed by political leaders and also concrete policy means are much more clearly proposed in this framework.

Embracing potentially unpopular policies, such as an increase of inheritance tax or the introduction of a Tobin Tax, is against the nature of the Partisan Third Way as it could potentially deprive key groups of voters and thus make it hard or even impossible to achieve the electoral alliance necessary to win elections. In the Governmental Third Way it would mean pursuing major policy change which is hard to realise especially if a successful policy change involves a successful international campaign. And a failed campaign can lead to loss of trust in the government's capabilities. This detachment of the International Third Way is also identifiable in the framework of the Progressive Governance Network.

## **8.2 The International Third Way and the Progressive Governance Network**

As indicated in Chapter 2, the Third Way debate shifted from its beginning in the US via the US – UK dialogue more and more towards Europe. After Al Gore decided not to run on a Third Way ticket in 2000 presidential elections and the Democrats eventually lost the White House to George W. Bush, the debate moved on and increasingly took place in the European countries where left of centre governments were still in power.<sup>605</sup> As the nature of the Third Way in party politics is defined by electoral success and being in power, it was in the logic of the process that the debates moved to where the Third Way power centres were.

After the initial series of 'Progressive Governance' meetings, the Progressive Governance Network received an administrative umbrella organisation, chaired by Peter Mandelson, named Policy Network.

Policy Network is an international think-tank launched in December 2000 with the support of Tony Blair, Gerhard Schröder, Giuliano Amato and Göran Persson<sup>606</sup> following the Progressive Governance Summits in New York, Florence and Berlin. (...) Policy Network's objective is the promotion and cross fertilisation of progressive policy ideas among centre-left modernisers. Acting as the secretariat to the Progressive Governance Network founded by Bill Clinton and Tony Blair Policy Network facilitates dialogue between politicians, policy makers and experts across Europe and from democratic countries around the world.<sup>607</sup>

Policy Network's role is very different though compared to other think tanks such as the PPI for instance. These two organisations work in two different dimensions of the Third Way. The PPI played a central role in developing the philosophical platform based on electoral concerns of the Democrats that was actually used successfully by Clinton in his 1992 campaign and thus played a major role in the

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<sup>605</sup> See Will Marshall, interview by author, 10<sup>th</sup> February 2004.

<sup>606</sup> From the list of supporters one can also clearly see the shift towards Europe

<sup>607</sup> [www.policy-network.net/php/section.php?sid=1](http://www.policy-network.net/php/section.php?sid=1)

Partisan Third Way. Policy Network has no such role. It does not produce political positions that are adopted by any party. It provides a framework and place of debate, rather than a direct source of ideas. Policy Network is the principal organiser of the international Third Way debate.

Parallel to the intellectual debate about the Third Way, the Progressive Governance Network too has had only limited influence on policies. Aleksander Kwasniewski, talking about the realisation of the UN Millennium goals at the public symposium of the Progressive Governance Conference in London in July 2003, the biggest international Third Way event that has taken place so far, put this in bold words:

We talk a lot, we discuss, but still we are not ready to take all the necessary steps. Sometimes, I participate in these international fora and symposia, and my feeling is that these are often bodies where everybody wants to speak and nobody wants to listen (...) we need to work more together than we do at present, and [we need] to use our time not just to make good speeches, but to undertake some actions as well.<sup>608</sup>

What was the effect of the progressive governance meetings? At the beginning, under the leadership of Clinton and Blair, they were mainly a networking meeting for heads of state, no matter how close their political philosophy or policy programme actually was. These meeting represented an additional opportunity for leaders meetings to discuss political developments rather than an attempt to develop similar policies.<sup>609</sup> In the course of the thinning out of Third Way governments, the progressive governance conferences became a place where the players of the worldwide intellectual debate met the political players. These meetings have proved to be an effective way to broaden the international network of formal and informal

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<sup>608</sup> Kwasniewski, Alexander (2003): Millennium Goals, *Progressive Politics*, Vol. 2, No. 3, p. 113.  
<sup>609</sup> See Dettke, Dieter, interview with author, 22<sup>nd</sup> June 2004.

contacts. In political effect however, these conferences were never more than a fair where one presents his own thinking to others. These meetings did not trigger a tendency of policy convergence. So the cross-fertilisation aspects were minimal.

This lack of convergence is also evident in the fact that there were no major initiatives on a supranational political level. The European Union (EU) is a good example for this. At the end of the last century, 13 out of 15 EU governments were lead by centre-left parties of which many associated themselves with the Third Way. Other than the unsuccessful Lisbon agenda, that has remained a goal rather than reality, there were no social democratic impulses of significance. One could have assumed that programmatic 'closeness' of so many governments would have triggered a more substantial impact, but this situation again provided evidence for the assumption that there was no increased political coherence across different countries that could have been attributed to the Third Way. The International Third Way played no major role and the logic of the other Third Way dimensions simply prevented more international coherence. As other commentators have argued, given the potential of the European political realm to pursue social democratic policies, it is 'surprising' that this space was not discovered.<sup>610</sup>

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See Merkel, Wolfgang (2000): Die dritten Wege der Sozialdemokratie ins 21. Jahrhundert, *Berliner Journal für Soziologie*, Vol. 10, No. 1, p. 120.

## **Conclusion**

The intellectual Third Way debate was a policy seeking exercise that largely faded out the mechanics of politics. The widely led intellectual debate about the Third Way was specific when it came to substantial policies. This opposite approach compared to the other Third Way dimensions however lead to the detachment of the International Third Way from practical politics. It did not impact much (other than lending vocabulary) on the Partisan or the Governmental Third Way.

The Progressive Governance Network was the place where the political mechanics and Third Way thinkers met. But in this sphere again, there was no meaningful influence of the international level on practical politics. The assumption that the existence of an International Third Way community led to a convergence of political programmes of social democratic parties cannot be proven. What did take place was the emulation of electoral strategies and the transfer of individual policies in some cases. An international revolution of Third Way ideas – as Al From saw it – however did not take place.

# Chapter 9

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## Conclusion

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This thesis covered a wide ground applying a new mix of investigative approaches to the comparative study of the British Labour Party and the German SPD focussed on the central issue of the Third Way experience in both parties. As the concept of the Third Way as such is often unclearly defined, a structure was needed that gave the term itself a clear meaning and at the same time allowed for detailed comparative analysis. For this reason, the Third Way was divided into three levels – the Partisan, Governmental and International Third Way – that allowed indentifying different functionalities.

The category of the Partisan Third Way investigated the Third Way experience in the setting of both parties. The analysis of the Third Way origins in the US Democratic Party revealed the primary function of the Partisan Third Way as an electoral strategy, which was above all designed to overcome electoral misfortunes. It shifted the party towards the vote seeking spectrum of Wolinetz' system of party classification, as the increase of the electorate was the main aim before seeking new policies. By doing so, the Democrats moved beyond what was perceived as 'special interest' politics and adopted a more neo-liberal approach that set economic functions above other political aims. This policy shift was proclaimed as applying old values in modern circumstances to facilitate opportunities for the individual, choice in public services, free enterprise and economic growth. The liberal background of the Third Way became also clear by investigating the 'American exceptionalism' and the difference between the origins of the US Democratic Party and socialism/social democracy, most comprehensively studied by Seymour Martin Lipset.

In the case of the Labour Party, it became clear that the emulation of the US Third Way – that itself was influenced by the Policy Review of Kinnock in the 1980s – shifted the party also towards a more vote seeking strategy adopting the economic logic of the New Democrats. This shift of policies was accompanied by major structural reforms of the party such as the further centralisation of leadership power and mechanisms – under the Partnership in Power programme – to keep policy making in line with government positions after the successful election of 1997. Hence, the Labour Party under Tony Blair drove the developments started under the Policy Review much further to the point where the party policies as well as the party structure were fundamentally changed. The change of the famous Clause IV symbolised this new beginning. In Blair's words too the Third Way was about traditional values in a changed world. He portrayed it as a synthesis of socialism and liberalism. The nature of the relationship to the Liberal Democrats too showed the increased input of liberalism into the Labour Party.

As the analysis of Labour's historical background revealed, the incorporation of liberal ideas has tradition in the party. Amongst others, New Liberalism and the progressive alliance in Labour's 20<sup>th</sup> century history displayed a close and sometimes overlapping development of British socialism and liberalism. Against this backdrop, the Third Way can be seen as 'continuity and change' at the same time, as Steven Fielding convincingly argued.

The experience in the SPD was fundamentally different. The historic analysis conducted in Chapter 4 gave evidence to the assumption that there was no comparable history of socialism and liberalism in Germany. The very different political

tradition was also one of the important reasons – together with the party structure that lacks the central leadership necessary to impose new policies in a top-down approach - why the introduction of a neo-liberal Third Way was rejected by the party. What was the Third Way impact on the SPD then?

Against the backdrop of a programmatically as well as structurally largely unreformed party, the German Third Way *Neue Mitte* was used tactically in the 1998 elections. This was in line with the Partisan Third Way's primary function as an electoral strategy. In the 1998 election campaign, there was a division of labour between the party chairman Lafontaine – whose task was to keep the traditional electorate loyal to the party – and the candidate Schröder, who tactically used the *Neue Mitte* to move into new layers of the electorate and build the electoral coalition necessary to win against the CDU under Kohl.

The *Neue Mitte* on the one hand portrayed Schröder as a moderniser close to Blair – who at the time enjoyed big popularity also beyond Britain – but on the other hand also in the own social democratic tradition of Willy Brandt, who introduced the term first in the 1970s, although with a very different meaning. Also some soundbites such as 'we don't do it differently, but we do it better' were lend from Willy Brandt. In terms of the election manifesto, this division of labour resulted in a divided and predominantly strategic document that, using X as well as Y formulations, shied away from setting out a clear policy line for a SPD-led government. If New Labour emulated the American Third Way, its impact on the SPD was no more than inspiration, according to Richard Rose's categories. The Partisan Third Way was thus very different in the cases of the Labour Party and German SPD.

Starting with Bill Clinton's experience in the US, it became clear that repositioning a party and winning elections can be quite a different task than pursuing policies in government. Additionally to the already identified diverging situations of the parties, the operation in different political systems and in different political economies influenced policy outcome too. Therefore it is vital, especially for a comparative analysis, where the political frameworks can differ as much as in the two cases investigated in this thesis, to make a distinction between the Partisan Third Way and the Third Way in the framework of government – the Governmental Third Way.

Even the very brief analysis of the political starting conditions for Blair and Schröder in the UK and Germany revealed how different the political tasks can be. The UK underwent major reforms under Thatcher, whereas the German case was largely characterised by reform log-jam (*Reformstau*). These different starting conditions however were also partly due to the exigencies of the different political systems, that put very different constraints on policy making for the Blair and Schröder governments.

In terms of George Tsebelis' veto player theory, Blair had only to face one rather weak veto player – Parliament – and experienced therefore very little institutional constraints on policy making. The situation in Germany was very different. In the case of the red-green government, there were three constant veto players: the parliamentary groups of the two governing parties – who together only enjoyed slim majorities in the *Bundestag* – and the Bundesrat as powerful institutional veto player that tends to have an opposition majority.

In the case of Labour in government, the new party line was by and large enacted in office. There is therefore a high degree of consistency between the Partisan and the Governmental Third Way, that was helped by the internal party reforms and the circumstances of the British political system mentioned earlier.

In economic and social policies, the main priority – especially in Labour's first term – was to reassure businesses and other economic players of Labour's economic competence and thus win over their trust. Tony Blair and Gordon Brown were keen to overcome the stigma of the economically unsuccessful previous Labour governments. Independence for the Bank of England and fiscal prudence were the cornerstones of this strategy. This left, at least initially, little leeway for increased public spending on social policies. This changed in Labour's second term, when public spending was on the rise.

Social policy in general was subsidiary to an economic logic, according to which good social policies were meant to enable citizens to take part and perform well in the economy. Many US Democratic policies such as welfare-to-work and tax credits were emulated to fulfil this function. Social policies ceased to be seen as social citizen rights, but reflected the 'rights and responsibilities' agenda, according to which the recipient is expected to deliver economically in return for the benefits of these policies. The minimum wage however was a policy where Labour sided with employee's interests and rejected business concerns arguing that the introduction of a minimum wage level would lead to job losses. These claims were unfounded.

New Labour in government however operated within the framework of the Thatcherite political economy, despite the significantly increased levels of public

spending. The tax system as the most important means of redistribution remained regressive and inequalities kept rising slowly from an already high level. Labour was successful in tackling poverty, but the gap between the lower middle and the upper class widened. There were no major structural reforms to Britain's political economy.

The overall economic logic of Labour's Governmental Third Way was also detectable in public policies. In this area, citizens were seen as consumers that value individual choice and therefore require tailor made public services. The NHS and higher education policies were examples where this logic showed through. In the area of domestic law and order policies, Labour was determined not to be perceived as 'soft' and enacted policies, especially in response to 9/11, that were authoritarian at times. Some commentators – as shown in Chapter 6 – argued that the UK policy response even exceeded new law and order measures in the United States.

In Blair's second term, foreign policy and especially the Iraq war overshadowed all other policy fields. Surprisingly, Blair was closer to the foreign policy of the Republican George W. Bush than to his Democratic predecessor Bill Clinton. In UK – US relations, Blair was first to establish a moral based foreign policy approach that was met with suspicion by Clinton and according to Christopher Hill represented a second order policy change as Britain's post World War II approach of a pragmatist foreign policy was dropped.

In the German case scrutinised in Chapter 7, there was a fair deal of competition between Lafontaine and Schröder before the former retired from all political offices in early 1999. In the first months in office, it was Oskar Lafontaine though whose

demand-side and employment approach dominated governmental policies. Significant increases of public spending and the ecological tax reform were examples for this.

This course however changed completely after Lafontaine's departure. When Hans Eichel took over the finance ministry, austerity and budget balancing became the primary aims in fiscal policy. This was accompanied by tax cuts on incomes and corporations to stimulate economic growth. The basic philosophy of the economic policy approach had thus changed.

Very similar to the Labour case, an economic logic was also observable in Schröder's social policies, after the pressure for some far-reaching changes became bigger and bigger following his narrow election victory of 2002. The set of economic and social reforms known as Agenda 2010 became the most associated reform package of Schröder's two governments. The main aim of the Agenda was to set more incentives for employment by stepping up the pressure on the unemployed (by serious cuts in benefit provisions), restructuring the unemployment and social benefit systems, weaken dismissal protection in small enterprises, improve the procurement of unemployed and support temporary and part-time work.

Another major aim – that was also detectable in public policies – was to bring down non-wage labour costs to reduce the costs of job creation. This was predominantly done by cuts and the tendency to privatise some elements of provisions, as for instance the introduction of a three-pillar pension system showed.

In the areas mentioned above, an economically-driven philosophy was adopted. In that sense the approaches of Blair and Schröder were very similar and one can argue

that the analogous mindset in these policy areas was the main comparative connection between the Governmental Third Ways in the UK and in Germany.

In other policy areas however, Schröder did not change the general political direction and did not adopt a New Labour – like approach. Defining elements of Rheinisch capitalism such as co-determination and collective bargaining were left untouched and a consumerist approach to public services was not adopted either, as for instance the resistance against university tuition fees showed.

In foreign policy, Germany's own path-dependency and especially the process of 'normalisation of foreign policy' that had started with German reunification was the main explanation for policy change. Germany's participation in out-of area military missions had nothing to do with a Third Way approach but showed clearly where the limits to common British and German foreign policy interests were.

Is there a common Governmental Third Way? In contrast to the Partisan Third Way, there were more similarities between both governmental experiences. These similarities were however limited to the introduction of an economic logic in economic and social policy, in Germany above all associated with Schröder's Agenda 2010. So Schröder's own claim that the Agenda followed the same logic as the Blair- Schröder declaration was true. As mentioned above however, this similar logic did not apply to all areas of social and public policy.

In electoral terms, Gerhard Schröder was much less successful than Tony Blair. And it were eventually these continuous electoral misfortunes – especially on state level - together with the deep suspicion of his own party towards the government's course that, also bearing the constraints of the German political system in mind, wore



his government down to the point where only the call for early elections seemed to provide a chance for the revitalisation of the reform process he started. This early election in late 2005 was then narrowly lost.

The third and last level of analysis was the category of the International Third Way, which consists of the intellectual debate as well as the progressive governance network. The International Third Way was largely independent from the two other Third Way levels. The intellectual debate was above all a policy seeking exercise, where political solutions were put ahead of the political mechanics or winning elections. And the progressive governance network did not bring about a significant cross-fertilisation or tendency of policy congruence, as the experience of social democratic governments in the EU showed. The International Third Way therefore had its own dynamic but was detached from any big influence on either of the other two Third Way levels.

In one of his last speeches as British Prime Minister, Tony Blair stated that:

The Third Way was never a half-way house between conservative and progressive politics. It was certainly not a defined set of policies, though it has come to be associated with certain strong policy positions. (...) Always keep the broad coalition of support necessary to sustain any progressive government. (...) We put the collective at the service of the individual, not the other way around.<sup>611</sup>

These statements summarise the main elements of the Third Way quite well: it was above all a tool to get elected and stay in power. It therefore lacked any clearly defined policies, although it generally – at least in the setting of the cases of Labour and the German SPD – became associated with neo-liberal economic and social policies focussed on enabling individuals, rather than looking for collective solutions to

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<sup>611</sup> Speech by Tony Blair, 18<sup>th</sup> January 2007. DVD supplied with this thesis.

political problems. The Third Way however was much too broad to be the international revolution of progressive politics its proponents claimed it was.

# Chapter 10

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## 10.5 Interviews

Dr Erhard Eppler (*former German minister, founding Chairman SPD Basic Value Commission*), interviewed on 22<sup>nd</sup> July 2006

Prof Lord Anthony Giddens (*Labour peer and author of 'The Third Way'*), interviewed on 20<sup>th</sup> September 2005

Ed Miliband (*Cabinet minister and former adviser to Gordon Brown*), interviewed on 3<sup>rd</sup> August 2004

Dr Dieter Dettke (*former Director Friedrich Ebert Foundation, Washington DC*), interviewed on 22<sup>nd</sup> June 2004

Will Marshall (*President and Founder of the Progressive Policy Institute, Washington DC*), interviewed on 10<sup>th</sup> February 2004

Al From (*Founder and Chief Executive of the Democratic Leadership Council, Washington DC*), interviewed on 16<sup>th</sup> December 2003

Oskar Lafontaine (*former German Finance Minister and SPD Chairman*), interviewed on 7<sup>th</sup> August 2001