Leveraging Ideological Constraints:
Partisan Labor Market Policies in Crisis-Ridden Europe

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What began as financial market insecurity in 2007 quickly morphed into the deepest global economic crisis since the Great Depression eight decades ago. Particularly among the rich democracies, economic activity plummeted and unemployment rose sharply. As wealthy countries stabilized their financial sectors through sizeable infusions of money in 2009, they found themselves and their labor market policies in a double bind. On the one hand, with unemployment remaining stubbornly high, increased demand for public services required swift and forceful state action. But, on the other hand, the crisis strongly constrained public spending on social protection, because investors’ concerns about the sustainability of sovereigns’ fiscal outlays had pushed up states’ refinancing costs. As welfare states were being pulled in diametrically opposing directions, and the governability of advanced democracies became more convincingly questioned than at any point in at least the last four decades, national governments chose to address these tensions with very different responses.1

This article sheds new light on how and why governments have chosen different policies during the recent crisis by examining the responses by British, German and Danish policymakers. In Britain, both the Labour government and later the Tory-led coalition refrained from interfering with the market forces that were driving up unemployment. In Germany, the grand CDU/CSU-SPD coalition sought to prevent layoffs by expanding the possibilities for state-subsidized short-term work. Finally, in Denmark, the Venstre-led administration left it largely to organized business and labor to make decisions about how to adjust labor market regulations to the crisis. Many scholars have been quick to conclude that countries’ responses have been highly path-dependent, with governments having fallen “back on old habits” as they pursued “reactive policy strategies.”2 However, while a degree of path dependence is undeniable, such broad conclusions about countries’ responses hide as much as they illuminate. At best, they don’t appropriately specify the causal mechanism that has underwritten institutional reproduction; at worst, they promote the incorrect interpretation that national adjustment patterns are pre-determined by institutional lock-in.

In contrast, we argue that the crisis has allowed partisan governments to exercise structured agency in choosing certain responses over others within a given national developmental pathway. We focus on how institutionally-entrenched ideologies about the proper role of the state at the work-welfare nexus have simultaneously constrained and enabled governments. In particular, we highlight how national governments have been able to leverage ideological constraints in the service of achieving partisan goals. In exploring how welfare states’ ideational structures mediate partisanship, we seek to contribute to improving the conceptualization of the causal processes behind institutional reproduction and change. The causal relationships behind

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1 On governability, see Crozier et al. (1974) and Streeck (2010).
2 Chung and Thewissen (2011).
the evolution of national institutional structures are complex, and we would like to make use of the distinct advantages that qualitative small-n work has for uncovering them.

The paper focuses on labor market policy, because it is a high-stakes policy domain. Through socially embedding market rule, labor market policies have provided the capitalist system with the legitimacy to commodify citizens as human resources. As such, they have played a crucial role for reconciling the needs of capitalism and democracy, and sustained relatively egalitarian economic outcomes in the process.3

We develop the argument in two steps. In the next section, we place it within contemporary scholarly debates and elaborate the theorized causal mechanisms behind the observed patterns of institutional reproduction and change. Subsequently, we discuss how the identified political dynamics have played out in the three countries by closely tracing the political processes behind the governments’ labor market policy responses during the crisis. A brief conclusion summarizes our findings and spells out their further implications.

1. National Ideologies and Government Partisanship

Institutions shape their own evolution, and we probe a central mechanism through which institutions do so. Seeking to deepen the “ideational turn” in comparative political economy, our analysis emphasizes the structuring effect that institutionalized ideas have on government agency.4 Specifically, we focus on the influence of widely accepted ideologies that lay out an appropriate role for the state in providing social protection against labor market risks. We have found that these ideologies have strongly intermediated government action during the crisis, simultaneously restricted partisanship to particular forms as well as ultimately aided its exercise.5 As we seek to demonstrate, ideologies have both framed a limited range of what are considered reasonable policy options, and – within this range – legitimized partisan policy responses. We contend that as long as the partisan policies were framed in the accepted ideological terms, governments have had relative freedom in pursuing their broader desired progressive or conservative agenda.

In the three countries under investigation, policy discourses have been anchored in distinct sets of ideas. In both Germany and Denmark, the respective policy discourse has revolved around one particular concept. In Germany, both policymakers and a great majority of the populace think of the role of the state in terms of preserving a “social market economy.” In Denmark, public discourse has become focused on the maintenance of “flexicurity.” While British discourse about the country’s social model does not offer a similarly characteristic phrase, the distinctively “liberal” terms of contemporary policy debate are no less striking. In each country, these ideologies are the broad frames of reference for actors’ understanding of their labor market institutions.

3 On embeddedness, see Polanyi (1944). On egalitarian capitalism, see Kenworthy (2007).
4 On the “ideational turn,” see Blyth (1997). Other mechanisms include institutions’ providing particular incentives to political agents or their empowering over others (cf. Hall 2010).
5 See Streeck’s emphasis (1997) that institutions can “force and facilitate” action.
The role of ideologies in shaping social action in the contemporary rich democracies has long been underappreciated in political science, because scholars have found it difficult to pin down their exact impact. The recent economic crisis provides a window of opportunity to change that, because it is the context of endemic uncertainty, when time for deliberation is short and actors “puzzle” about what to do, that ideas’ effects become most visible.

We probe the interplay between partisanship and welfare state ideologies, because previous research has found strong interaction effects at play in the politics of welfare state reform. Our implicit causal model is one in which ideas act as intervening variables that moderate the relationship between governments’ partisan interests on the input side and policy profiles on the outcome side. We selected “diverse” country cases to demonstrate our argument through a full range of values in both independent and dependent variables.

1.1 Mechanisms of Ideological Intermediation

In positivist qualitative political economy research, ideas tend to be defined as “causal beliefs.” They give actors guidance about cause-and-effect relations, stipulating that a particular action will produce a specific result. Ideologies are a subset of ideas. Having long all-too closely been associated with Marxist historical materialism, ideologies are studied by contemporary scholars as “broad worldviews that provide coherent interpretations for the world and guidelines for dealing with it.” Researchers have embraced ideologies as enduring but dynamic entities that specify the evolving relations between key concepts such as, for instance, equality and liberty. Each ideology acts as a frame in promoting particular conceptualizations of each concept and thus “decontesting” the tension-filled relationship between them.

This approach to ideologies as semantic fields can be fruitfully employed in analyzing the influence of nationally-dominant public philosophies about the legitimate institutional configuration at the work-welfare nexus. With each ideology promoting particular ways of reconciling the competing needs of capitalism (free play of market forces) and promises of democracy (equal social rights), it provides different prescriptions for what constitutes appropriate state action. Ideologies can also provide powerful public narratives. As such, they can be distinguished from other types of ideas – including policy paradigms – which might neither be conscious to all actors, nor always be explicitly uttered. Ideologies’ influence is a dual one, in that they both shape both policymakers’ internal perception of challenges and offer them resource for externally framing partisan goals for public consumption. In short, ideologies have both cognitive-normative and strategic-political effects.

Internally, ideologies systematically guide government actors’ attention within processes of decision-making, leading policymakers to reason about certain causal possibilities and data, as

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6 Berman (2011).
7 Blyth (2002).
9 Seawright and Gerring (2008, 297-300).
10 Béland and Cox (2011, 6).
11 Berman (2011, 105).
12 Freeden (1996).
13 On policy paradigms, see Hall (1993).
14 See Berman (2011).
well as to ignore and discount others. Functioning as a “cognitive lock,” ideas help policymakers deal with the intellectual capacity constraints associated with their own “bounded rationality.” In the terms of rational-choice decision theory, ideas provide a cognitive shortcut that helps policymakers treat Knightian uncertainty as calculable risk. As ideologies have this cognitive effect, they strongly shape how actors’ normative partisan predispositions – e.g. conservative or progressive – find expression in sets of particular policy preferences. Indeed, the cognitive and normative effects of ideas on agents’ rational problem-solving are intricately interwoven.

Externally, ideologies are effective “weapons” in the political struggle over setting policy agendas. They enable governments to use the crisis as a “window of opportunity” and push through legislative changes that might have been politically impossible to pursue under the regular “policy stream” associated with more stable economic conditions. If governing parties are keen on implementing their partisan visions against initial popular reservations and potential opposition by political adversaries, then inherited ideas are important “power resources” to tap into.

Appreciating such framing strategies requires a refined understanding about how policymakers lead and set the agenda. Instead of pandering to public opinion in the policies they pursue, politicians seek to sell their policies in such a way that the public supports them. Policymakers can give their proposals the right “spin” by adapting the argumentation for their desired policies in such a way that the public opinion is more prone to supporting the policies. Politicians thus often do not seek to directly persuade the public. Rather, they try to influence public perceptions of particular policy proposals through crafting a message that invokes and resonates with particular interpretative frames. And, arguably, the most effective frame is a particular take on a widely shared inherited idea. The goal is to manipulate public opinion in such a way that the public supports policies that it would not support in the absence of this active framing. In the process, politicians often end up taking advantage of ambivalent in voters’ attitudes. And even when voters remain opposed, spinning can be used to avoid blame for unpopular decisions.

In specifying how ideology intermediates government partisanship, this analysis contributes to historical institutionalist theorizing on endogenously generated institutional change and the balance between structure and agency during a crisis-induced potential critical junctures. As

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16 Weyland (2007).
17 Beckert (1996).
18 See Dobbin (1994).
19 Blyth (2002).
21 See Korpi (1998) on power resources.
22 Jacobs and Shapiro (2000). Pollsters and spin-doctors often support politicians in this quest. Bill Clinton’s master-pollster Dick Morris confirms that politicians “don’t use a poll to reshape a program, but to reshape … [the] argumentation for the program so that the public supports it.” Similarly, Michael Deaver, senior aide to President Reagan, emphasis that “under Reagan, polls were not use to change the policy to follow the prevailing winds. Instead, they were tools to determine how to persuade people about an idea” (Jacobs and Shapiro, 2000, vii).
23 Weaver (1986).
such, our research is part of an ongoing reorientation of emphasis in historical institutionalist work from explaining institutional reproduction to explaining innovation.

A first wave of historical institutionalism had conducted illustrative “second-image-reversed” analyses that showed how national institutions contained the equalizing impact of international-level trends, sustained national variety and underwrote domestic institutional continuity. Building on notions of self-reinforcing path dependence, institutions were conceptualized as constraints on action that gave rise to institutional inertia and even distinct equilibria. While analyses highlighted different mechanisms of institutional reproduction (e.g. utilitarian considerations, functional benefits, power and legitimation), the role of increasing-returns processes borrowed from institutional economics has been particularly influential. For instance, the discussion about the varieties of capitalism and institutional complementarities was often cast in these terms. In this framework, breaks in paths were only possible in moments of punctuation by external shocks – as theorized in evolutionary biology. In turn, this scholarship had little to say about both endogenous sources of institutional change and the role of institutions in shaping the patterns of politics during moments of punctuation.

Breaking with this rigid distinction between “normal times” of institutional reproduction and “unsettled times” of institutional fluidity, a recent second-wave of historical institutionalist scholarship has embarked on probing gradualist conceptions of institutional change. In that quest, scholars have followed the lead of more voluntarist analyses in giving explicit analytic attention to actors’ strategically tapping into institutions to promote institutional change. Our analysis seeks to advances this newer scholarship by embedding it within the scholarship on institutional continuity, and integrating discussions about path dependence through legitimacy with actors’ strategic use of existing institutions for path redirection.

1.2 Three Distinct Ideologies in Great Britain, Germany and Denmark

We can build on the findings of comparative work on welfare state regimes in identifying the most important differences in the three countries’ dominant ideologies. As the role of the state at the work-welfare nexus has evolved over the last two centuries and in particular after World War II, at least three distinct institutional configurations for temporarily “decommodifying” citizens emerged. They have often been labeled by the political forces that most shaped their particular institutionalization: Liberal regimes in Anglo-Saxon countries, Christian Democratic regimes in Continental Europe, Social Democratic regimes in Scandinavia. Since the 1980s, all three regime types have experienced processes of parallel and far-reaching institutional liberalization.

26 Hall and Soskice (2001).
28 On the rigid distinction, see Katzenelson (2003). See Mahoney and Thelen (2010a) and Streeck and Thelen (2005) for attempts to conceptualize how institutions intermediate institutional changes and how incremental changes can cumulate into institutional transformations.
30 As such, we provide a set of ideational and strategic mechanisms for conceptualizing how institutional continuity and change can exist simultaneously.
In turn, they have all moved toward an emphasis on worker activation and strengthening asset-based welfare provision. Nevertheless, long-standing differences in the regimes’ character have been maintained. Indeed, seemingly paradoxically, the recent paradigmatic recasting of welfare state structures has only served to cast into sharper relief the differing norms and principles at the sitting at the heart of the three welfare state regimes. Arguably, the distinction made decades ago between a “residual welfare” model, an “industrial achievement-performance” model and an “institutional redistributive” model rings truer now than it has for a long time. Differences in the countries’ social models are clearly visible along such dimensions as the generosity of social protection, the degree of universalism, points of intervention (pre- or post-allocation), and the division of responsibility between the state and corporatist bodies.

These institutional changes were accompanied by changes in the discourses of policymakers and the views of the populace about the goals and instruments of social protection. Before the Great Recession of 2007, this left in place different ideologies about how much the state should intervene (i.e. if governments should pursue retrenchment or expansion), as well as how the state should intervene.

In British history, liberal ideology has been an important force, and after the “Thatcher revolution” it has again become completely hegemonic. This outlook requires the state to refrain from interfering with labor market allocation and to safeguard the work incentives that are necessary for the market to function well. There is no better symbol for liberal ideology’s predominance than the social democratic Labour Party’s reinvention of itself as “New Labour.” After losing four consecutive national elections, Labour’s leaders Tony Blair and Gordon Brown turned the party away from Old Labour collectivism and state-interventionist Keynesianism to the liberal mainstream. Publicly sold as a Third Way, this programmatic reorientation included a firm commitment to maintaining the strengths of the “liberal economy,” including its highly flexible labor market, increasingly conditional and meager social benefits, and a market-based system of skills acquisition. New Labour’s appeal to middle-class voters was sought by referencing Bill Clinton’s welfare-to-work reforms, designed as “a hand up, not a hand out” that sharpened the incentives for individuals to take up work. Arguably, this liberal turn was a return to historical precedent as recent as World War II when new liberals – rather than social democrats – conceived the postwar welfare state. For instance, targeting benefits was at the heart of Beveridge’s philosophy, and he also advocated that unemployment benefit recipients should be required to attend a work or training center.

The electorate has taken to policymakers’ liberal messages, becoming increasingly disillusioned with the welfare state. While the percentage of the population that wanted the government to

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34 Dingeldey (2011).
35 This is a distinction made by Titmuss (1974).
38 Dolowitz (2000). The social democratic element of the Third Way was relegated to a commitment to “making work pay” (through in-work tax credits and the introduction of a statutory minimum wage), to effectively assist people in their attempts to get back to work (through intensive job-search assistance and counseling in a modernized Public Employment Service), and – if all else failed – to the referral to education, subsidized work in the private sector, or work in environmental or communal projects; see Weishaupt (2011).
spend more on benefits was still 55 percent in 1987, it had fallen to 36 percent in 2004 and 27 percent in 2009. The British population appears particularly doubtful about the state’s ability to fairly distribute public money. Since the 1980s, there has been a “marked decline in support for redistribution,” with the belief in the government’s duty to reduce inequality becoming a minority position in 2004.39

In Germany, the state’s role at the work-welfare nexus tends to be discussed in terms of the concept of a “social market economy” (Soziale Marktwirtschaft). The concept has framed German economic policy more than any other; and in 2010, only 15 percent of Germans believed that there existed a better economic system than the social market economy.40 Coined by academic-turned-policymaker Alfred Müller-Armack in 1947, it initially came to wider public attention through its inclusion in the center-right Christian Democrats’s (CDU) campaign program for the Federal Republic’s first general election a year later. Strongly influenced by Christian social thought, Müller-Armack saw it as an “irenic formula” that pacified its constitutive elements. Over the nineteen years of continuous CDU-led coalition governments in the postwar period, it came to express a particular Christian democratic version of stabilizing the social order, which combined a commitment to Ludwig Erhard’s ordoliberal economic policies with social protection through generous social insurance that maintained the status of male breadwinners’ families.41

The Social Democrats (SPD) were initially very skeptical of the term’s Christian democratic biases. But in the end the concept’s association with the country’s postwar “economic miracle” (Wirtschaftswunder) proved to be too much of a pull. When the Social Democrats finally adopted the term, they sought to fill it with a wider conception of social protection, which included additional features that they introduced from the late 1960s onward. Among the most important innovations under Social Democratic-led coalition governments were the introduction of a Swedish-style active labor market policy through the Work Promotion Act (Arbeitsförderungsgesetz, AFG) as well as the acts on vocational training (Berufsbildungsgesetz) in 1969. What did not change, however, was the organization of the German “social state” (Sozialstaat) along decided non-liberal lines that put a premium on stabilizing the social order over securing “free” labor market allocation. Indeed, the expansion of statutory employment protections under an SPD-led government only reaffirmed this tendency. When the term social market economy was included in the unification treaties with the East – then again by a CDU-led government – it arguably became the state’s semi-official guiding ideology.

The Danish belief in the concept of “flexicurity” is of more recent provenance, having emerged in the late 1990s as a principle that could provide a rationalization for the set of Danish labor market policy that was in place then. The term was originally used to describe social policy initiatives in the Netherlands. But it quickly diffused through international policy discourse to domestic usage in Denmark, which explains why there exists no equivalent Danish-language term. It fell on fertile ground in Denmark, because of its seeming fit with the institutional

40 Admittedly, 41 percent of Germans (aged 16 and above) are not committed on this issues; only 43 percent explicitly said that no better economic system existed (Bertelsmann Stiftung 2010, 6).
41 Eucken (1939) originally set the early ordoliberal agenda.
distinctiveness of Danish policy labor market policies’ offering of “protected mobility.”42 The country’s welfare state stood out among rich democracies as the only one combining few statutory employment protections (which promote labor market flexibility and short average job tenures) with generous social security benefits and services funded by high taxes, including a 25 percent VAT and high income taxes going up to a marginal rate of 63 percent. Moreover, since reforms in the late 1980s and early 1990s that sought to reduce the perceived rate of structural unemployment, expanded active labor market policy and extensive lifelong learning opportunities have become an important part of the Danish labor market policy mix.43

In other generous European welfare states – e.g. Germany and Sweden – the union movement successfully pushed for extension in statutory employment protection in the late 1960s and early 1970s, but in Denmark such attempts proved unsuccessful. Instead, many employment protections are only included in collective bargaining treaties. More broadly, collective bargaining tends to set many of the parameters for the Danish labor market. It covers 71 percent of the private sector at in 2010, as well as the large public sector that employs 30 percent of the full-time-equivalent national workforce.44 Its history goes back to the September Agreement (Septemberforliget) of 1899, when the employers recognized the unions as the organizations representing collective workers interests in exchange for workers’ agreement to respect employers’ rights to determine who they can employ. Organized employers and unions have strongly defended this “Danish model” of industrial relations ever since. Indeed, they have jointly presented this public-private division of responsibility in labor market regulation as a constitutive feature of the “flexicurity” system.45

2. Britain: Defending the “Liberal” Legacy

The British case illustrates how the two major parties – Labour and the Conservatives – have been in competition over which is the better “champion” of defending the country from crisis-induced changes. Gordon Brown succeeded his Labour colleague Tony Blair as Prime Minister without new elections in 2007. He “inherited” a British economy from Tony Blair that had shown years of sustained growth and a modernized welfare regime. By 2008, there were more people in work than ever in British history, unemployment benefit claimants had reached the lowest level in over 30 years, and long-term unemployment was less than a quarter of its 1997 level.46 Likewise, the government’s total debt was below 40 percent, and also the annual debt remained at low levels and well below the EU’s three-percent target.47 As such, when the country entered the crisis, New Labour seemed to be able to look back at a successful decade, and overall results that were palatable to most voters. Soon thereafter, however, with the state having made huge open-ended financial commitments to stabilize banks’ balance sheets, Britain faced its largest budget deficit since World War II.48

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43 Schulze-Cleven et al. (2007). On the perception of “structural unemployment” in Denmark, see Albrekt Larsen and Goul Andersen (2009).
44 The data on bargaining coverage is taken from Ibsen (2012, 6). The employment data on the public service is available at: http://www.dst.dk.
45 On the history of Danish industrial relations, see Due et al. (1994).
Heavily dependent on the financial sector, the British economy was hit early and hard by the global economic and financial crisis. Beginning in the summer months of 2008, unemployment rose quickly and predictions for the future were dire. In September 2008, economists predicted that the unemployment rate would increase by about 1.5 million persons to a total of three million, or a nine percent unemployment rate by the end of 2010.\(^49\) In this dire context, the Brown government needed to take swift and decisive action. Accordingly, the Brown government outlined a “larger-than-average” fiscal stimulus package already in November 2008 geared to “rescuing” the financial sector, unfreezing credit markets, cushioning the effects of the real estate crisis, and thus mitigating the immediate impact of the recession on the labor market.\(^50\)

However, the British “liberal” labor market had become a liability as firms could quickly and in large numbers shed “excess” labor. By March 2009, the unemployment statistics showed over two million people out of work, a symbolic threshold that was provided a popular focal point in much media reporting. A variety of actors then offered PM Brown their proposals about how to best move forward. The trade unions, traditionally a close ally of Labour, loudly advocated a demand-side, “Keynesian” solution, which included an increase of social benefits and of redundancy payments to ameliorate economic hardship and to sustain domestic demand for goods and services, and the introduction of a German-style “short time working subsidy to help companies avoid redundancies in the first place.”\(^51\) Employer lobby groups – whose support Labour also sought – such as the Conference of British Industry (CBI), along with Chartered Institute of Personnel and Development and manufacturers’ body EEF joined the Trade Union Congress in asking for short-time work scheme to protect existing jobs. These demands were, however, categorically rejected by the Labour government. Raising benefits – a response taken also by President Obama in the US – was outside the repertoire of acceptable choices as benefit increases were not reconcilable with the New Labour dogma built on the importance of “negative” work incentives along the traditional “least eligibility” principle. Introducing a short-time work scheme, in turn, was “at odds” with New Labour’s belief in free enterprise and fears about deadweight effects and a hindrance of “necessary” structural adjustments within the industry. In other words, neither of the two proposals was reconcilable with New Labour’s cognitive-normative commitments.

On April 22, 2009 Chancellor of the Exchequer Alistair Darling then announced a “budget for jobs” worth three billion pounds, i.e. a fiscal stimulus explicit not through higher benefits. The budget included additional resources for Jobcentre Plus to hire more personnel and open longer hours, recruitment subsidies for firms that employ 18-to-24-year-olds who had been out of work for more than 12 months, direct job-creation measures with the aim of generating 250,000 jobs over the following two years, a £30 increase in the rate of statutory redundancy payments, and more generous contracts to providers of the Flexible New Deal, who had threatened to pull out of the scheme as they are only paid when they place jobseekers into jobs.\(^52\) Two of the three billion pounds were to go to job-creation measures. In particular, jobs for youth unemployed were

\(^{49}\) Seager et al. (2008).

\(^{50}\) Eichhorst et al. (2010, 25).

\(^{51}\) Prosser (2009a).

\(^{52}\) Elliott (2009), Prosser (2009b).
outlined and financed through the one billion pounds worth *Future Jobs Fund* initiative, which was expected to create 100,000 to 150,000 six-month long work opportunities for young jobseekers, who have been out of work for 12 months, and others, who face significant disadvantage in the labor market.\(^53\) This “job guarantee” was, in the words of Frank Field, Labour’s “most precious initiatives” – and designed as an obligatory program in which refusal to participate could lead to the loss of benefits.

Despite these massive interventions, the numbers of 16-to-24-year olds not in employment, education or training (NEETs) breached the one million mark in November 2009. The same month, PM Brown pledged that every young person aged 18 to 24 would get a job or training, fearing that an entire generation of youngster could acquire the “scarring effects” of long-term unemployment. In his Pre-Budget Report, published in December, all young people out of a job for more than six months – the previous budget foresaw a threshold of 12 months – were guaranteed a work or training place on council-led job creation or community-based work schemes.\(^54\) These places were to come also from the *Future Jobs Fund*. While the offer was optional at the six-month threshold, take-up becomes mandatory before completing ten months on JSA. Other pledges included more personalized job-search and counseling services offered “from day one”, as well as a 40 pounds a week Better off in Work Credit, and a Graduate Guarantee that graduates still unemployed after six months will be offered an internship or other support. All of these proposals squared fairly with New Labour’s welfare-to-work dogma and the principled belief that the State intervenes in only those ways that foster market forces through the “right” incentives.

In the spring of 2010, the labor market began to relax and unemployment numbers began to decline. The TUC claimed that the government’s actions had prevented unemployment to reach levels as high as in the recessions of the 1980s and the early 1990s as the government’s policies reduced unemployment by 1,000,000.\(^55\) However, despite these overall positive trends, Gordon Brown and his Labour Party could not rally enough popular support in May, and Labour lost the elections with only 29 percent of the vote.

A new Conservative-Liberal coalition took the reign, pursuing a distinctly different vision of liberalism. Blaming Labour for having overseen an unsustainable growth of state expenditures that brought with it the problems of Continental Europe, the government embarked on far-reaching reforms with impressive vigor and brought an aura of austerity over the country. In October 2010, the new government revealed Britain’s toughest public spending cuts in more than 60 years, reducing costs in government departments by an average of almost 20 percent. Moreover, the budget sharply curtailed welfare benefits, terminated most New Labour programs such as Future Jobs Fund, raised the retirement age to 66 by 2020, and eliminated hundreds of thousands of public sector jobs in an effort to bring down the budget deficit.\(^56\) Cameron advocated these steps as the only way to lower long-term interest rates and attract new investment. The Labourite “Third Way” was clearly replaced with a purely neoliberal agenda that could have been taken from a University of Chicago economics textbook.

\(^{53}\) HM Government (2009, 30).
\(^{54}\) Darling (2009, 7).
\(^{55}\) Allen (2010).
\(^{56}\) http://topics.nytimes.com/top/reference/timestopics/people/c/david_cameron/index.html
In sum, the British trajectory – with two governments pursuing very different policies – clearly shows that ideologies leave a lot of room for government choice. At the same time, the commitment liberal values effectively ruled out responses tried in other countries. The Labour government was locked-into a liberal responses even though powerful players called for more interventionist measures. For the Labour government, a government committed to promote employment, it was “public job creation” that offered a solution to uphold flexible labor markets and “proper” incentives to seek work, without compromising their “social democratic” identity that prioritizes a “right” to work. Alternative ideas such as Keynesian-style increase of social benefit to stimulate demand (as pursued by the Obama administration) or the introduction of short-time work schemes (as demanded by both the trade unions and employer groups), were rejected as they constituted “old” Labour ideas and were thus irreconcilable with the belief in “unfettered” markets.

Later, the Tory-led government successfully sold its austerity measures as the better defense of liberal Britannia. By 2012, 74 percent of Britons agree with the statement that “the government pays out too much in benefits; [and that] welfare levels overall should be reduced.” Strikingly, even 59 percent of Labour voters agreed with it.57 Fully endorsing a neoliberal orthodoxy, the Cameron administration effectively “re-connected” with Thatcherism, and pushed through the most rigorous austerity plan in postwar British history. While voters – especially Liberal voters who did not anticipate such a radical path departure, or rather path return to the 1980s – did not initially approve of many of the cuts, the Cameron government remained unshaken in his deep-rooted belief that sound fiscal policy will be the best path to renewed economic growth and with it, a reduction in unemployment. As such, what is “liberal” economic policy has very different meanings depending on who is in office, and it is this conception of economic liberalism, not structures and societal pressure groups that shape institutional evolution and change.

3. Germany: Championing the “Social Market Economy”

While the British case has illustrated the (self-)constraining effects of “New Labour” ideas on PM Brown’s room for maneuver and the enabling effects for PM Cameron for the electorally successful return to the heydays of the “Old Conservatives”, the German case shows how a broad, centrist coalition is able to massively intervene in the market economy by referencing the deeply rooted, internalized concept of the Social Market Economy.

In the fall 2005, a Christian Democratic-Social Democratic grand coalition took office, after seven years of a Social Democratic-Green government. Led by Chancellor Angela Merkel (CDU) and controlling about 73 percent of seat in Bundestag, the grand coalition was a union of necessity rather than choice.58 This was the case as the neither a “typical” coalition between the Christian Democrats and the FDP nor a coalition between the Social Democrats and the Greens had enough seats in parliament to form a (majority) government. The weak performance of both people’s parties was, in turn, interpreted as both a rejection of the Christian Democrats’ move to the right (which was embodied in the programmatic conclusions of the party assembly in Leipzig during December 2003) and the Social Democrats’ allegedly neoliberal Agenda 2010 (which

57 Kellner (2012).
58 Anderson and Hecht (2012).
entailed many of the most controversial elements of the so-called Hartz reforms). Forming a grand coalition was thus built on the premise that the Christian Democrats would be able to “recapture” the trust of centrist voters, while the Social Democrats hoped to restore their credibility by coalescing with the “mainstream” Christian Democrats rather than the “radical” Left Party (and expecting that voters tired of the previous years of rapid reform would contribute positive economic trends to the Social Democrats’ reforms).

When Chancellor Merkel came into office, she inherited a significantly restructured German welfare state and a friendly economic climate. Similar to the developments in the UK, the general economic upturn during 2005 and 2007, had led to rapidly falling numbers in unemployment – from a peak of 5.29 million in February 2005 to the lowest point of 2.99 million in November 2008 – while reaching an all-time record of more than 40,000,000 persons in employment. With an expanding tax base – and a parallel three percentage point increase in the value-added tax, which generated more than 20 billion Euro of additional revenues – the public deficit continuously shrank, and 2007 became the first year in Germany since 1969 in which the government had higher revenues than expenses.

When most of Europe was affected by the consequences of the global financial crisis in the summer and fall of 2008, German politicians saw “tendencies of a recession” only in October. In early November, the government agreed to a first stimulus package entitled “Securing Jobs by Strengthening Growth” worth roughly 30 billion Euro. This package included inter alia credits for small and medium sized businesses, new investments in the public infrastructure, subsidies for remodeling private buildings in a climate-friendly way, tax incentives to buy new cars, and an extension of the duration workers can work “short time.” In January 2009 already, the government announced a second, 50 billion Euro “stimulus package”, which included a municipal investment program, direct investments in infrastructure (especially the German railways), direct cash subsidies for people who “trade in” old for new cars (Abwrackprämie), moderate tax and payroll reductions, and further expansions of the short-time work program (Kurzarbeit), which became the government’s main instrument to tackle the effects of the crisis on employment. Especially, the trade unions were pleased with the stimulus packages as they saw their major demands – e.g., Kurzarbeit and Abwrackprämie – realized, while the “mood” between the government (especially the SPD) and the unions had much improved since the controversial Hartz reforms.

The short-time work scheme (Kurzarbeit) would quickly become the grand coalition’s flagship program and was embraced by almost the entire political elite (except the Free Democrats and some leading economics who opposed the program based on its market distorting effects). The CDU promoted the value of short-time work loudly with reference to the Social Market

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59 For more details about the welfare restructuring efforts, i.e., the so-called Hartz reforms, see Eichhorst et al. (2008) or Weishaupt (2010a).
60 Bundesagentur für Arbeit (2010, 4-5).
61 Federal Office for Statistics (2010). This positive trend was, however, embedded in comparatively high levels of overall governmental debt of 65% of GDP, thus significantly above the EU’s Stability and Growth Pact Target of 60 percent.
63 The short-time measure quickly became a highly sought-after program, and it is estimated that some 1.5 million workers worked short time during 2009 (Ochsner, 2010).
Economy, stressing that the program embodied classic elements such as job protection and social promotion. Noteworthy examples include not only the German Chancellor (e.g., her website identifies the Social Market Economy out as the first (of her four) convictions), but also forceful statements by Karl-Theodor zu Gutenberg (Economic Minister), political heavy-weights Roland Koch and Christian Wulff (Minister Presidents of Hessa and Lower Saxony), the economic policy speaker of the CDU Laurenz Meyer, and the Christian Employees Association of Germany (CDA). The CDU, which had notably shifted to the left during the crisis, found strong support for the short-time scheme also from their social democratic coalition partner. The SPD repeatedly argued that the Great Recession was a “big test” for Germany’s social market economy and early on pushed for the expansion of short-time work. Not surprisingly, leading Social Democrats such as Labour Miniter Olaf Scholz, Chancellor Candidate Frank Walter Steinmeier, and many others called for a continuation and modernization of the social market economy in the run-up to the 2009 election. The SPD stressed that the short-time work program was part and parcel of Germany’s “employment miracle”, and that the program had prevented a “drastic rise in unemployment”. In short, the grand coalition was in large parts in agreement about the adequacy and necessity of the short-time work scheme as it satisfied both party profiles, which had become increasingly centrist, was squarely reconcilable with Germany’s Social Market Economy principles, and could built on existing values and structures.

Come election time, many voters attributed the successful crisis response to the CDU, and many of those dissatisfied with the CDU’s leftward drift opted for the Free Democrats (FDP) instead. The latter effect turned the FDP into the surprising “winner” in the parliamentary elections, garnering some 14.6% of the popular vote share. When in October 2009, a new government formed between the Christian Democrats and the market-oriented (FDP) a shift to the right was observable and employers hoped that some of their “old” demands would now be heard. The employers welcomed the coalitions’ plans to “freeze” employers’ payroll contributions to the health insurance system, celebrated the decision not to introduce a statutory minimum wage – which had become a central demand of the SPD during the election campaigns – and encouraged further tax cuts. However, due to the centrist positioning of the CDU and its continued adherence to the ideals of the Social Market Economy, the “turnaround” was much less pronounced as the one pursued in Britain. For instance, the CDU – much to the disliking of the FDP – defended a guarantee for a continued autonomy in collective bargaining (Tarifautonomie) and co-determination (Mitbestimmung), promised not to alter the existing employment protection laws, and did not retrench access to short-time work.

In conclusion, as the grand coalition sought to manage the labor market fallout from the crisis, its primary concern was to proactively avoid an increase in overall unemployment. The social partners shared this priority, and employment-sustaining collective agreements, the liberal use of working-time accounts, and – from a political point of view – the expansion of Kurzarbeit became the foundational pillars of the German response. Critique came almost only from the opposition parties, including the Left Party, which wanted a much more intensive intervention.

64 http://www.angela-merkel.de/page/117.htm
66 http://www.spdfraktion.de/cnt/rs/rs_dok/0,,50468,00.html
67 Stettes (2009).
(including the nationalization of key industries and banks) and the FDP, which feared that the Kurzarbeit would artificially prolong the life-span of inefficient firms and as such prevent necessary market adjustments. The German case clearly shows that the reactions were only partially structurally path dependent. More important were the cognitive and normative underpinnings of a Grand Coalition government that included a moderate CDU (who had distanced itself from the free-market wing) and left-leaning Social Democrats (who were eager to win back party defectors). The Grand Coalition was not afraid to interfere with market forces. Building on the legacy of the Social Market Economy, the coalition put forward a politically attractive strategy that mainly – at least rhetorically – built on, but vastly exceeded, previous short-time work instruments. This approach – while openly criticized by leading economists and the FDP (who was then able to garner the votes from those voters disappointed with the left-leaning CDU) – was well received by voters (rewarding the CDU, the historic heir to the Social Market Economy) and “appeased” industrial relations, thus allowing for a concerted rather than conflictual approach to crisis management. In the end, the German approach became a “best practice” model and the German Social Market Economy has reentered the competition over the most attractive economic model.

4. Denmark: Maintaining “Flexicurity”

The Great Recession hit Denmark very hard, with the decline in GDP during 2008 and 2009 being larger than during the 1930s and public expenditures rising temporarily from 51 percent of GDP in 2007 to 58 percent in 2010.68 The crisis clearly brought to an end the “economic and employment miracles” that were much celebrated during the decade before. It also brought to fore economic imbalances that had long received little attention by analysts, including a housing bubble and the consumption-driven nature of much of former economic growth in Denmark, both of which were made possible by loosening credit opportunities.69 After the correction in the housing market, households reduced consumption, which dampened tax receipts and ultimately forced down public expenditures. These dynamics cumulated into a severe recession, with unemployment doubling over the three-year recession.

For our purposes, the Danish case shows how the emergence of the ideology of flexicurity has allowed center-right parties to curb further expansion of labor market policy expenditures and to successfully retrench labor market programs. Flexicurity became so widely adopted as a frame that the government could reference it when resisting fiscal expansion. In short, liberal and conservative politicians could leverage the ideology to move toward a smaller welfare state. In way, center-right politicians in Denmark had finally found a “backdoor” way to break the normative hold of social democratic ideas on the population. The government’s opposition to social democratic training and labor market policy was far better “discursively unanchored” than earlier Thacher-style frontal assaults on the welfare state during the 1990s.70 As much as the Social Democrats and unions protested against the government’s austerity course, they had little ideational leverage. After all, the liberals Venstre was only sticking to the strengths of the “flexicurity” model, guarding against security considerations crowding out the competitive advantage it provided in delivering “flexibility.”

68 OECD (2012).
69 Goul Andersen (2011).
70 See Anders Fough Rasmussen’s 1993 book on shrinking the welfare state (Fra Socialstat til Minimalstat).
The incumbent conservative Venstre-led government – first under Anders Fogh Rasmussen and after April 2009 under Lars Løkke Rasmussen – only instituted a small extra program to placate the unions, being watchful not to embrace “outdated” public labor market policies. For instance, in May 2010, the Rasmussen’s government announced major spending cuts and measures designed to increase revenues, including unemployment insurance cut from a maximum of 4 years to 2, as well as cuts to child support payments. Moreover, the government let replacement rates for unemployment benefits continue to fall.

Politically, the government put the much of the labor market policy reaction in the hands of the social partners and collective bargaining. For instance, given that the government refrains from setting an official minimum wage (minimumsløn), collective bargaining decides on the floor for the wages paid in the economy (mindsteløn). But the really big issue was the fate of active labor market policy and lifelong learning opportunities, which the Social Democrats had significantly expanded in the 1990s to underwrite equality of opportunity. Before the crisis, the Venstre-led government had made huge cuts in these programs and encouraged the social partners to take over the funding for much of continuing vocational training through the collective bargaining treaties. The social partners embraced this new responsibility and unions have been pushing for expansions of such supply-side solidarity in each round of treaty negotiations. This shift in responsibility meant that the government was off the hook as far as new active labor market programs during the recession were concerned. The negotiations for the 2010 collective bargaining agreement went relatively smoothly, with the eventual contract seeking to balance the need to sustain domestic demand through private sector wage growth and the imperative to exercise wage restraint to maintain competitiveness. The outcome was a modest agreement with new provisions aimed at restricting “social dumping.” Moreover, supply-side solidarity was further expanded.  

5. Conclusion

In this paper, we theorized and demonstrated the impact of ideologies on countries’ labor market responses during the recent Great Recession, highlighting both ideologies’ cognitive-normative and strategic-political effects.

We have clearly shown that in the British the government’s crisis response turned on the particular interpretation of economic liberalism. An interpretation that had previously been the “key” to winning three consecutive elections constrained the Brown administration to follow the US or German examples, while Cameron’s success was largely built on his re-connecting with the Tory legacy. The divergence of policies shows the power that ideas have on policy decisions.

In the German case, we find a similar dynamic but in reverse. The grand coalition’s original crisis response was strongly influenced by the government’s consensus about the merits of the Social Market Economy. It allowed for a state-interventionist policy agenda that was also endorsed by both employer groups and the union movement. When the elections brought back a “classic” center-right coalition government, this deep-rooted belief in the Social Market Economy amongst leading Christian Democrats (who were accredited with a successful crisis

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71 Ibsen (2012).
management in contrast to the Social Democrats) then prevented a radical departure from the set
paths even though the FDP strongly called for it. The FDP and the economically conservative
wing of the CDU failed to offer a viable alternative and lacked a legacy that was freely available
to Cameron.

In Denmark, the crisis provided an opportunity for the Venstre-led government to reduce long-
term welfare state commitments by invoking the importance of safeguarding “flexicurity.”

Our analysis highlights that while legacies are important determinants of politics and policy, they
are in the end what governments make of them. Institutionalized ideas do not prescribe particular
types of behavior. National-level institutions do not set governments on autopilot in exercising
a particular national developmental path. Instead, there are many choices and paths available.
Inherited institutions and ideas are malleable. They are messy and often multi-dimensional; not
neat and coherent. The meaning of ideas is often ambiguous, and they develop their force only
through actors’ interpretation. In turn, the re-interpretation of existing ideas offers possibilities
for path redirection. Governments are constrained by what has come before and need to build
on inherited ideas rather than start with a blank slate; but they also make active use of ideational
legacies with the goal of redirecting old paths of institutional development.

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