The 1990s are widely seen as a decade of neoliberal globalization. Only European social democracy seemed to stem the tide of unfettered world markets, which neoliberal and conservative governments had unleashed in every other part of the world. Backed by a rising tide of electoral support, in 1998 social democrats were in government in 13 out of the then 15 member states of the European Union (EU). Together, they busily constructed a European social model (ESM) and presented it as an alternative to Anglo-Saxon capitalism. After the 1992 European Council (EC) meeting in Maastricht, the Social Dialogue, originally started in 1986, was upgraded to a process of consultation between employer associations, union representatives, and the European Commission. A complementary Macroeconomic Dialogue was instituted in 1999. In 2001, the EU announced its Lisbon Strategy, according to which the EU would become the fastest growing and most competitive region of the world. Now, the ESM was expected not only to produce social cohesion, but also to stimulate growth in knowledge-based economies. Towards these goals, annual Tripartite Social Summits for Growth and Employment were initiated since 2003.

Neither the expectations regarding economic growth nor regarding social cohesion were met, however. EU growth hardly caught up to US levels in the years following 2000 and was lower than it had been in the 1990s in both regions. Moreover, after 10 Eastern European countries joined the EU in 2004, the process of European integration came to a crashing halt when plans for a European constitution were defeated by Dutch and French referenda in 2005. When a slightly revised and renamed version of this document
(the ambitious title Constitution was dropped in favour of the common EU-language of a treaty) was put before the Irish people in 2008, it was defeated again.

Gone were not only the days of ESM building and the social democratic comeback of the 1990s. In 2008, social democrats were, as in 1998, governing parties in 13 EU member states, but total membership has risen from 15 to 27 in the meantime. Moreover, social democrats in many countries lost government majorities through devastating defeats in elections and face severe membership losses in many countries.

This article tries to explain the passing of the ESM moment, along with social democracy’s short comeback in the 1990s. Social democratic designs of the ESM rely on a “transposition and expansion model” that tries to transpose the welfare states that have developed on a national level in Western Europe to the EU level and, in the case of EU enlargement, expand such a Europeanized welfare state to new members in Eastern Europe. This model carries forward some ideas about economic development and public policy that are deeply entrenched in the history of European social democracy: the reliance on economic growth as a precondition for social justice or, in modern EU language, cohesion; the neglect of centre-periphery relations; and the central role of the nation-state as a realm of conflict and compromise. None of these ideas properly describes European realities since the 1990s. Growth remained sluggish ever since the end of the post-WW II boom, centre-periphery relations can’t be ignored since the EU’s Eastern enlargement in 2004, and a European public that could replace the national public sphere is still in its very early stages. It will be concluded that the divergence between some of the key ideas around which the ESM was designed, together with European realities in the 1990s, contributed to the rapid transition from ESM building to the current crisis of European integration. These arguments will be developed and explored in three steps: a brief overview of the scholarly and political debates about the ESM, followed by a short history of the actually existing ESM, and, finally, some legacies of European socialism that shaped the actually existing ESM, but also contributed to the present crisis of European integration.
Debating the ESM  Scholarly and political debates about the ESM were, and still are, mostly focused on institution building. They treat economic and social conditions as exogenous factors that make institutional changes necessary. Globalization is the most prominent, and arguably also the least precise, among these exogenous factors. According to this view, trade and capital flows that increasingly transcend national borders undermine states’ regulatory capacities. The complete subjugation of politics to market imperatives can be avoided, however, through institutional adjustments on the national level, supplemented by the creation of supranational institutions. These well-known and general arguments frame much of the research on European welfare states and the political designs for an ESM.¹

Most research in this area compares actually existing welfare states and tries to classify them in a number of ways. Particularly prominent among these classifications is the distinction between liberal, conservative, and social democratic worlds of welfare capitalism,² liberal and coordinated market economies,³ or market, managed, and state capitalism.⁴ These typologies, along with a few others,⁵ represent ideal types that have one common point of reference: the US or Anglo-Saxon model. The latter, comparative welfare state researchers suggest, represents the surrender of politics to market imperatives, whereas the continuing existence of European welfare states is seen as proof that globalization neither precludes institutional diversity nor political choice. One possible conclusion from this analysis is to distinguish between “Social Europe” and “Liberal America.”⁶ Such dichotomies are as common in scholarly and political debates⁷ as they are flawed.

Arguably, Anglo-Saxon capitalism comprises not just the United States, but also Australia, New Zealand, Canada, and Britain. Since the latter is an EU member, one might assume that it is also part of the ESM. If that’s the case (after all, the New Labour government signed the EU Social Charter and opened the way to include the Charter in the EU treaties in 1998), the border between Anglo-Saxon capitalism and ESM becomes blurred. Furthermore, when Britain is qualified as a liberal welfare regime or market capitalism, a significant part of its post-WW II history, which saw not just the making of a Beveridge-style welfare state but also large-scale nationalizations, is ignored. Moreover, it is questionable whether diverse European
welfare states can be aggregated into a unified Social Europe or ESM. Although some scholars suggest that transposed welfare models from the state level to the EU level could be achieved in the future, others argue that the diversity of European welfare states is precisely the factor that precludes the convergence towards an ESM. From this latter angle, the best Europe can achieve is some loose coordination on the EU level that might help to preserve welfare models on the level of individual EU member states.

Thus, ESM optimists see the diverse institutions of European welfare states as a malleable resource that can be turned into an EU-level social model, whereas skeptics see welfare state institutions more as an iron cage that predetermines national adjustment paths but precludes the transposition of a plurality of welfare states onto a more unified EU level. Policymakers and lobby groups can use this wide range of scholarly interpretations as a varied policy menu. Usually, EU officials and other EU-level actors, such as the European Trade Union Congress (ETUC) and the Party of European Socialists (PES), choose a policy mix that considers the ESM as an emergent reality. Fed equally by path-dependent developments of individual welfare states from below as by initiatives on the EU level, Europe might either move more towards convergence around a unified social model or to the coexistence of loosely coordinated national welfare states.

All these debates share an institutional focus, and treat economic and social factors as independent variables. In one respect, this focus distinguishes them from neoclassical economics, which derives the deregulation of the economy as an inescapable consequence of economic globalization. Against this teleology, the welfare state institutionalism maintains the political choice between different national or supranational adjustment paths. However, economic globalization and the need for adjustment based thereupon are neither questioned by neoclassical economics nor by welfare state institutionalism. Indeed, this “methodological economism” has far-reaching consequences for the design, implementation, and functional capabilities of the ESM.

Whereas neoclassical economics assumes that unregulated markets are the only way to fully use economic resources and thus maximize economic growth, welfare state institutionalism argues that the same can be accomplished through
political regulations that turn equality into a source of efficiency. Such views were most visibly institutionalized in the EU’s Lisbon Strategy in 2001, which called for the EU to become the most competitive and fastest growing world region, and aimed at redirecting social policies from redistribution towards the mobilization of human capital. Ironically, the same year these ambitious goals were proclaimed, the New Economy boom came to an end. The 2001 stock market crash and ensuing recession revealed, firstly, that economic growth is by no means an exogenous factor that can be taken for granted and, secondly, that the EU was tied by the neoliberal design enshrined in the common market program as much as by the rules governing the European Monetary Union (EMU). Tight monetary policies and attempts to stick to the EMU’s limits on budget deficits produced a procyclical effect that made the recession in the early 2000s in Europe much more severe and prolonged than it was in other world regions.

These very cursory hints should suffice to argue that the EU, far from seeking an alternative adjustment path to an exogenous process of economic globalization, is itself a driving force of globalization and neoliberalism. However, the welfare state institutionalism, which delivers most of the conceptual designs for the ESM, completely ignores the social forces that turned the EU into a neoliberal promoter of globalization. Therefore, it is also blind to the organized social interests that work actively against the ESM or try to design its institutions in a way that is compatible with their own neoliberal agenda.

Closely related to the questions of economic growth and integration, but equally neglected by welfare state institutionalism, is the changing face of centre-periphery relations and regional disparities. The neoliberal remake of the EU, beginning with the common market program in the 1980s, went hand in hand with deepening regional disparities. The first round of EU Eastern enlargement in 2004 led, some scholars suggest, to the establishment of centre-periphery relations between Western and Eastern Europe. In this view, Eastern European countries are stripped of economic resources that might otherwise be used to develop some kind of welfare capitalism instead of a peripheral capitalism. Unsurprisingly, then, the welfare state institutions that do exist in Eastern Europe deliver, at best, very rudimentary levels of
social protection, and bear some resemblance to Anglo-Saxon capitalism that is portrayed negatively by the adherents of welfare state institutionalism and the ESM.

For a while, though, conceptual inconsistencies in ESM design, the neglect of neoliberal forces that would work against it and centre-periphery relations that help to undermine national as much as supranational social models, didn’t matter much politically. Increasingly fed up with the broken promises of neoliberal prosperity, electorates voted for social democratic parties that propagated even vague versions of a Social Europe. This popular demand for alternatives to neoliberalism explains why, by the late 1990s, social democratic parties had the political majorities they needed to speed up the process of ESM institution building. The aforementioned factors, though, will later help to understand why institution building was a passing moment and why the institutions that were actually created didn’t produce much social protection, let alone legitimacy for the European integration process.

**Making of an Actually Existing ESM** The institutional history of the ESM that actually developed on the EU level goes back to the 1957 Rome Treaties, which mark the beginning of the European Community and European Union, respectively. These treaties established the European Economic and Social Committee (EESC) that served as a framework for discussion among business and union leaders. However, the 1950s were a time of prosperity and welfare state building on the national level. Under these conditions, class compromises could be negotiated within EU member states so that, for a long time, little was left for the EESC to do. In 1997, in the midst of the wave of ESM institution building, the EESC was “upgraded” from a framework for mutual exchange among so-called social partners to a body that the EU Council, Commission, and Parliament have to consult whenever they deal with economic and social issues. The 1990s institution-building wave itself was triggered in the mid-1980s as a complementary process to the Single Market Program. The 1986 Single European Act, which initiated the transformation of EU’s customs union into a single market, included the Social Dialogue that created another forum for corpo-
ratist consultations between social partners and EU institutions besides the EESC and was championed by Jacques Delors, then president of the EU Commission. The rationale for the single market and the complementary introduction of the Social Dialogue was threefold. First, to stay competitive with United States and Japanese companies, Europe needed a single market that would allow European companies deeper specialization and the realization of economies of scale not achievable within the confines of national markets. Second, to get trade unions aboard the industrial restructuring processes that would inevitably come with, and in preparation for, the single market, some form of corporatist integration needed to be provided. Third, this integration should be institutionalized on the EU level because nation states’ efforts to regulate economic and social issues were seen as increasingly ineffective in the face of increasing capital mobility. Some form of social integration was also sought when the EMU got started with the 1992 Treaty of Maastricht. The Social Charter adopted by the EU Council in 1989 became part of the treaty. Because the British Tory government blocked full integration as a chapter of the treaty, it was attached as an appendix. As was already mentioned, the Social Dialogue became part of an ongoing process of consultation between business and union representatives and the EU Commission the same year.

ESM institution building reached a high point in the late 1990s when 13 out of 15 EU member states had social democratic governments. The 1997 EU summit in Amsterdam launched the European Employment Strategy, which added National Action Plans, intended to promote job growth within member states, as a complement to the fiscal policy guidelines of the Stability and Growth Pact (SGP) and tied the EESC closer than before into the EU’s policymaking process. The 1999 summit in Cologne prompted the Macroeconomic Dialogue between the ECB, the EU Commission, and member state representatives from governments, employers’ associations, and trade unions. The 2000 summit in Lisbon marks a turning point in the institutional development of the ESM. Instead of creating further institutions on the EU level, it implemented the Open Method of Coordination as a means of mutual persuasion among member states’ governments. Thus, the ambitious goal to remake a corporatist frame-
work that was used to govern individual welfare states on the EU level was
downgraded compared to the EU’s long-standing intergovernmentalism
that puts more weight into the hands of member state governments and
the EU Council meetings than in the hands of distinct EU-level institu-
tions, notably the Commission. Even more important, the ESM, along with
the EU members’ welfare states, were subjugated to the economic goal of
making the EU the most productive and fastest growing region in the world
over the course of 10 years. Means to achieving this goal are: increasing
labour force participation, increased skill levels, and the completion of an
internal financial market, which should promote the establishment of new
enterprises. Fiscal discipline and low inflation rates that are codified in the
SGP and the ECB statute are seen as macroeconomic complements to the
microeconomic mobilization of venture capital, skilled labour, and entre-
preneurialism. The adoption of the so-called Lisbon Strategy ended the
1990s wave of ESM institution building, and also the “dual power” between
corporatist-Keynesian and neoliberal strategies of EU integration.

The neoliberal design of economic integration from the Single Market
Program through the EMU to the Lisbon Strategy is beyond dispute. Since
the mid-1990s, though, discontent with neoliberalism was rising all around
the world. European contributions to this development were a series of
trade union and civil society protests at EU summits that championed some
kind of Social Europe. At the same time, social democratic parties across the
EU could win elections by advocating alternatives to the neoliberal economic
policies that conservative parties had pursued since the 1980s. Against the
background of popular claims for alternatives to neoliberalism and the level
of economic integration that the EU had reached since the start of the Single
Market Program, the idea to transpose national welfare states, which had
served to balance growth with equity fairly well during the post-WW II-era,
was quite obvious. This transposition model implied that institutions of
the ESM would serve as a countervailing power to the neoliberal design of
the Single Market and EMU in the same way as welfare state institutions
counterbalanced the unfettered pursuit of profit at the level of EU member
states. Another implication of the transposition model is the need to restore
and replace the national class compromises on the European level, which had

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### Table 1. The European Social Model and its Institutions

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been the social basis for national welfare states and had been broken up by neoliberal business factions at various times since the late 1970s. Given the social democratic comeback in the 1990s, recurrent protests and strikes against welfare state retrenchment, and protests for a Social Europe, it certainly was not beside the point to think that a European class compromise could be attained against the will of neoliberal-minded European business leaders. However, it did not happen. As it turned out, an ESM that should rest on the shoulders of European trade unions and business communities couldn’t be established because the latter denied cooperation and couldn’t be forced into a Euro-corporatist arrangement either. This failure to transpose corporatism from member states to the EU level has political and economic reasons.

Corporatism, to be successful, relies on a public sphere in which conflicting interests can be negotiated and transformed into compromises. As mentioned, labour and social democracy were on the defensive within national public spheres since the late 1970s. Starting at the same time, business leaders from various countries built European networks — best known among them being the European Round Table of Industrialists (ERT) — that were, and still are, instrumental in forming the EU’s neoliberal agenda. However, notwithstanding the existence of the ETUC and occasional union mobilizations, a European public with mutually recognized class representations has not developed until now. European businesses could be united under the banner of neoliberalism, notwithstanding the divergent interests of financial, industrial, and merchant capital, of big corporations and small or medium-sized enterprises, and of companies largely serving domestic or international markets. European labour, on the other hand, was increasingly fragmented. Unions, to varying degrees in different countries, lost members in manufacturing industries and had great difficulties organizing workers in new industries. Union density, again to varying degrees, was decreasing and the composition of membership in terms of occupation, employment status, and age showed a growing mismatch compared to the composition of the total workforce.

Against this background of a looming crisis of representation, and the decline in bargaining power that comes with it, they considered either
throwing their remaining weight fully behind the defense of national welfare states or seeking Europeanization.\textsuperscript{32} Even within European social democracy, which was the driving force behind the ESM,\textsuperscript{33} there was skepticism. This was particularly the case in small countries where people and political parties generally suspect the EU to be an instrument of domination in the hands of Europe’s large countries. It was also the case in the Scandinavian countries, whose welfare states were still much more developed than anything that could be expected from the ESM. Besides the evolving crisis of representation and uncertainties regarding the virtue of Europeanization within unions and social democracy, a third factor worked against the emergence of a single voice of European labour strong enough to withstand the ERT’s neoliberal song. In fact, instead of agreeing on one song, there was ongoing debate among those who thought the Keynesian welfare state song could be sung in EU key, whereas others were advocating a Third Way song, although they hadn’t even finished writing it.\textsuperscript{34} Disputes about whether to sing on a national or a European stage and which song to sing also mark parties to the Left of social democracy. Though they don’t advocate a Third Way that may be hard to distinguish from neoliberalism, they haven’t come up with a coherent strategy around which the fragmented forces of European labour could reinvent themselves.\textsuperscript{35}

Political dissonance regarding strategy and scale had rendered European social democracy, other Left parties, and unions ineffective actors on both the member state and EU levels. The forces of capital, on the other side of the class divide, were capable of playing an effective two-level game\textsuperscript{36} by defining and codifying neoliberal policy goals on the EU level and leaving, after careful consideration of the balance of power in each country, their implementation to national governments.\textsuperscript{37} They were so good at this that they could drag social democratic governments into the neoliberal way, which was a Third Way only in as much as it was willing to use corporatist methods to achieve neoliberal policy outcomes. As subordinate players in the neoliberal game, social democrats quickly lost credibility (and thus voters and government power) among workers, unemployed, and retired people. These people had hoped that social democratic governments would either restore national welfare states or put something different in their place that
would offer social protection against neoliberalism’s offensive against the living and working conditions of working classes and some layers of the middle classes. While social democracy took a severe blow from its Third Way turn, neither parties to the Left of it, nor unions or any other social movement could pick up the combined discontents with neoliberalism and Third Way social democracy to turn it into a movement for political alternatives.

This weakness of labour became apparent under the impact of two economic developments. One was the Eastern enlargement of EU, the other the end of the New Economy boom. At its 1993 summit in Copenhagen, the EU Council defined three criteria for Eastern European countries to join the EU: democracy and the rule of law, a functioning market economy, and acceptance of EU rules and regulations. Since then, fears grew in the West that an unprecedented race to the bottom would drive wages and social security levels down to Eastern European levels. Complementarily, fears of domination by Brussels’s EU bureaucracy and Western European corporations were growing in the East. Centre-periphery relations had never played a prominent role in social democracy’s strategizing efforts; at most, they were seen as a problem of developmental policies in distant countries, and had now become a significant agenda item in Europe. While fear of intensified competition for wages and social standards spread slowly but steadily since the early 1990s, in 2001 the end of the New Economy came as an unexpected shock to almost everybody, including social democrats. It quickly turned out that not only was the ambitious Lisbon Strategy built on the same shaky foundations as the Clinton boom, but also that growth in the European economy had been driven largely by exports to the United States during the 1990s. Once economic stimulation from the West was gone and the winds of competition were blowing harder from the East, questions that social democracy could not answer were asked about the economic basis of the ESM. Is it possible to generate unlimited economic growth and use it as the basis of either national welfare states or an ESM? Is it possible to maintain prosperity and social cohesion in individual, or a group of countries while other countries lag severely behind?
Regardless of all the twists and turns that European social democracy has taken in its history, there is continuity in terms of its economic outlook that significantly shaped the design of the ESM. While it is true that economic ideas can help win power at certain times and under particular circumstances, it is also true that adherence to long-maintained ideas can contribute to the loss of political power at different times and under different circumstances. The attempt to build the ESM on the conceptual basis of continuous economic growth and neglect of centre-periphery relations is a case in point. The next section shows that these ideas are inextricably entwined with the history of European social democracy, and socialism more broadly.

History That Still Matters: European Socialism and the Actually Existing ESM  Social democracy’s main economic theme that took various forms since the second half of the nineteenth century may be summarized as follows: technological progress is the independent variable that drives economic growth and thus creates the preconditions for social cohesion. In turn, where such cohesion is supplanted by social conflict, the growth process can be stalled. Luckily, the state is a neutral force that can moderate between conflicting social interests and thus create favourable conditions for technological progress and economic growth. One important implication of the idea that the state is a moderator of social conflict and thus a facilitator of growth is that economic development is dependent on state capacities to mitigate conflict and produce consensus across conflicting interests, whereas the international division of labour plays a minor, if any, role. Such a view of the world economy also implies that poor countries, if they are capable of building proper institutions, are able to catch up to rich countries. On the other hand, external constraints, such as the domination of the centre over peripheral countries, are largely neglected. Occasionally, such domination was even justified as a means to pull preindustrial societies out of their backwardness. For its reliance on technological progress, this economic theme can be called “productivist.” The intent to use the state as a moderator of social conflict and facilitator of economic growth makes it a corporatist approach, and the neglect of centre-periphery relations makes it Eurocentric. With regard to the centre-periphery relations that prevailed in
Europe before the Cold War and quickly recurred after this confrontation had ended, it may be more accurate to speak of an approach centred on Western Europe. This is understandable if one considers that productivist-corporatism had its premiere in Western Europe during a period of strong economic growth and political stability that followed an era of insurrections, starting with the French Revolution in 1789 and ending with the suppression of the Paris Commune in 1871, and also following a depression from 1873 to 1895.

Against this turn from turbulence to stability, Marxist ideas of class struggle and crisis paled and could be sidelined by the ideas of class conciliation and continuous growth. The cooperation of skilled workers, clerical workers, and engineers in the production process was seen as the core of such a development and also as the basis for an industrial democracy, a People’s State, which would transcend conflicts between bourgeoisie and proletariat. Though German social democracy is famous for the inception of so-called revisionism, similar ideas gained ground all across Western Europe around the same time. The idea to build the ESM on the basis of a new economy carried and developed by knowledge workers can be understood as an updated version of the original revisionist idea to overcome social conflict and economic instability through the combination of technological progress and cooperation in the production process. The analogies between the late nineteenth and the late twentieth century go even further. In both time periods, the role models for technological, economic, and social progress were developed in Western Europe, while Eastern European social democracy was striving for the adaptation of these models more than for the development of its own strategic vision.

Another variation of productivist-corporatism developed in the twentieth century. In the first half of the century, ideas of Organized Capitalism couldn’t gain much ground because wars, revolutions, and economic crises disproved the notion that cooperation in the domestic and international level could avoid conflict and crises. However, economic and political catastrophes from 1914 to 1945 could be explained by the absence of countervailing powers of labour that would have been able to hold monopoly capitalism’s quest for power and profit in check. After WWII, social democ-
racy's vision of prosperity, social cohesion, and political moderation seemed to come true. The Keynesian welfare state offered the means of regulation that allowed the full use of all available economic resources. Though many social democratic intellectuals conceded the continuing existence of social classes and conflicting interests, their relevance was disputed. Prosperity, it was widely assumed, delivered the means for a corporatist deal between the countervailing powers of labour and capital. It should be noted that the traditions of European social democracy blended with Keynesian ideas that spread from Britain and the United States to continental Europe after the war. The ensuing First World presented itself, and was widely seen, as a role model for the rest of the world. This is true even for the Second World, the Soviet Union and its Eastern European allies. Though the Bolsheviks who built the Soviet Union had departed from European social democracy in the early twentieth century politically, they shared the latter’s fascination with American ways of production. Lenin, the revolutionary, praised Fredrick Taylor’s scientific management as much as reformist union leaders from Germany or the Austrian Marxist Otto Bauer. In the 1930s, the Soviets used Henry Ford’s River Rouge complex as a blueprint for industrial developments such as Magnitogorsk.

In the aftermath of WWII, the Taylorist-Fordist production model was, with country-specific nuances of course, extended to Eastern Europe and combined with a political system that drew conceptually on Popular Front strategies from the mid 1930s and claimed the overcoming of class conflict in the name of People’s Democracy. The parallels between Soviet Marxism in Eastern Europe and social democracy’s revisionism in Western Europe are apparent. The crucial difference, of course, is that the latter started out as a strategic concept that eventually was transformed into the theory and practice of the Keynesian welfare state, whereas the latter was a legitimizing effort for the extension of the Soviet system into Eastern Europe. Apart from the legal differences between private property and state property, almost identical technological paradigms could be found in Eastern and Western Europe. Based on the same understanding of scientific rationality, the East announced the making of a classless society, called “actually existing socialism,” and the West proclaimed the irrelevance of class structures under
the reign of welfare capitalism. In addition, the state was seen as the arena for economic growth on both sides of the Iron Curtain. Thus, the political confrontation between East and West went hand in hand with competition for growth rates, expressed famously by Nikita Khrushchev when he announced in the 1950s that the Soviet Union would catch up and overtake US levels of productivity within just a few years. East Germany’s Walter Ulbricht sounded even more ambitious when he suggested overtaking Western productivity without catching up. Strange as this idea may sound, and it sounded strange to most of Ulbricht’s contemporaries (including his comrades in the Socialist Unity Party), it contains some truth.

Some circles within the nomenclature of Eastern European states conveyed the idea of a scientific-technological revolution in the 1960s. The application of scientific knowledge in the production process, they argued, would yield higher growth rates than investments in additional machinery or living labour power. Though similar ideas were conveyed in the West as well, it was not until the 1980s that social democracy fully bought into notions of postindustrial society that would be based on the universal application of scientific knowledge to production processes. The high point of that line of argument was, of course, reached in the 1990s when the knowledge economy was seen as the basis of the ESM. In this new economy, the skilled workers, seen as the sparring partners of engineers and other professionals in the production process and as the backbone of union and party organizations since the days of social democratic revisionism, became obsolete. Their place was to be taken by autonomous individuals, knowledge workers, whose ideas would spur economic growth and who, politically, wouldn’t need representation by mass organizations.

The knowledge worker is the most up-to-date variation in social democracy’s long-standing reliance on technological progress as an engine of economic growth and social progress. However, at the same time that the knowledge worker started her career, the other pillar of social democracy’s conceptual and strategic traditions, the state, was increasingly called into question. One argument, which was developed to question the state’s role as a neutral moderator between conflicting class interests, suggests that such conflict had become increasingly meaningless in light of the transforma-
tion from manufacturing industries and skilled workers to the postindustrial economy with its sharply increasing number of knowledge workers or symbol analysts. In other words, the conflict between labour and capital was overcome by the emergence of human capital as the overriding factor of production. As a consequence, organized labour and large corporations lost their significance; state moderation became obsolete. Another argument to refute state regulatory capacities pointed to increasing capital mobility that would allow companies to evade the high taxes and social standards required to maintain the welfare state. The postindustrial thesis as well as the capital-mobility thesis were hotly debated among social democratic intellectuals. Some suspected that the role of symbolic analysts and capital mobility would be more of an exercise in neoliberal discourse than an empirical reality. Such criticisms implied, therefore, that Keynesian welfare state policies could be pursued if governments were willing to do so; however, there weren’t many willing to try.

In the 1980s, social democracy lost the coherence and attractiveness that had allowed it to bring welfare state development forward during the postwar era. In fact, the ESM can be understood as a compromise between the main political currents that shaped social democracy after the hegemony of the Keynesian welfare state. On one hand, the ESM left open the possibility to pursue Keynesianism; on the other, by transposing such policies to the EU level, it conceded that increasing capital mobility rendered them ineffective on the national level. By the same token, extending the ESM would be the only chance for new EU member states in Eastern Europe to ever adopt Keynesian policies. The Lisbon Strategy clearly shows, however, that the economic underpinnings of the ESM were sought in a knowledge economy. Once the (largely US-driven) new economy boom was over in 2001, it turned out that the corporatist institutions of the ESM were lacking the economic resources for successful conflict moderation.

From that angle, the transposition model of the ESM failed because economic prosperity, which had been the basis for successful corporatism in the postwar period, couldn’t be restored. This failure is even more apparent with a view to Eastern Europe where inequality had been on the rise since the transition to capitalism had begun in the early 1990s. Just a few years
later, and rather unexpectedly at the time, social democracy in Eastern Europe, made up largely of former communist parties, had a series of electoral successes comparable to those of their Western European counterparts.\textsuperscript{57} However, neither social democratic governments at home nor EU accession, which included the extension of the ESM to Eastern Europe, could contain social and economic inequalities in the new European periphery. The result has been a nationalist and antidemocratic backlash in many Eastern European countries.\textsuperscript{58}

Lack of growth across the EU, aggravated by the emerging centre-periphery relations between Eastern and Western Europe, deprived the ESM of economic resources that could have been used for corporatist conflict moderation. It is not quite clear, however, whether the transposition and expansion of national welfare states to the EU level failed for economic reasons alone. As discussed earlier, there is neither a European public nor a coherent social democratic strategy. Advocates of a Keynesian version of the ESM, as opposed to the actually existing Lisbon version, could argue that the pursuit of Euro-Keynesian policies could have produced higher growth and therefore opened the way to politically moderated redistribution from high-income groups and regions to lower incomes.\textsuperscript{59} This argument implies a much larger question: to what degree are policy options determined by economic conditions and to what degree can political intervention have an impact on economic developments? It is one of the hidden continuities of European social democracy that, from its early revisionism through the welfare state days to the ESM and the knowledge economy, it consistently advocated for intervention and pointed to economic constraints any time intervention didn’t produce the designated results.

**Conclusion** Social democracy has gone a long way from its nineteenth century revisionism to present day Third Wayism. Notwithstanding significant changes regarding strategy, social base, and goals, there are also important continuities. In the late nineteenth century, revisionists were wrestling with an openly economistic brand of Marxism. A century later, Keynesian and Third Way social democrats, who argued about everything else with each other, were united against a kind of neoliberalism that was
even more economistic than Marxism has ever been. In both cases, social democrats advocated political intervention as an alternative to ostensible iron laws of history. As the above analyses of ESM building in the 1990s and of ideational traditions within social democracy have shown, however, a hidden economism can be found throughout social democracy’s history. This economism sees economic growth as a given. If growth is strong, as it was during the postwar period of welfare capitalism, intervention is used as a tool for conflict moderation. On the other hand, low rates of growth, as between the two world wars and since the 1980s, are accepted as an economic constraint to welfare state intervention, no matter whether this would be pursued on the national or the EU level. Discrepancies between claims for political intervention towards social justice and the acceptance of economic growth as an external constraint lead to crises of legitimacy. Social democracy wins adherents for its promise to tame market forces; it loses them anytime it doesn’t deliver on its own promises. This has been the case after the New Economy boom. Once an economic crisis hit in 2001, lower growth was accepted as an external limit to the redistributive capacities of national welfare states and the newly created ESM. Electoral defeat and declining membership of social democratic parties were the consequence. Moreover, Eastern enlargement has brought the harsh inequalities characteristic of centre-periphery relations into the EU. In the West, enlargement destroyed hopes that the EU and its ESM would be an economic and social space that is politically protected from unfettered competition in global markets. In the East, it became apparent that economic growth benefitted only a small layer of the new rich, but didn’t do much to improve the conditions of the majority of people. Because social democracy focused mainly on economic development within nation states and had neglected the asymmetric relations between centre and periphery, there were no concepts to overcome the new economic and social gaps between East and West. As it turned out, negative integration within the EU had paved the way for increasing intra-EU trade and capital flows, while the ESM was not equipped with sufficient economic resources to successfully contain inequality within Europe.
Notes


10. Anna Dimantopoulou, “The European Social Model — Myth or Reality?” Address at the fringe meeting organized by the European Commission’s Representation in the UK (Bournemouth, UK, 29 September 2003); European Trade Union Congress, “The Case for Europe: Shaping a Strong Social Europe” (Brussels, 2005); Rasmussen and Delors, *The New Social Europe*.


32. Bieler, *The Struggle for a Social Europe.*


46. Hall, *The Political Power of Economic Ideas*.


55. Scharpf, *Crisis and Choice*.


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