THERE WERE ALTERNATIVES: LESSONS FROM EFFORTS TO ADVANCE BEYOND KEYNESIAN AND NEOLIBERAL ECONOMIC POLICIES IN THE 1970S

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The article begins with a critique of analyses of neoliberalism that present the rise and hegemony of this form of capitalism as an inevitable adjustment of state apparatuses and policies to economic and social changes that had undermined previously existing Keynesian welfare states. Contrary to such view, the article argues that the New Left, labor militancy, and new social movements have thrown the Keynesian welfare state into a legitimation crisis in the early 1970s that was exacerbated by the world economic crisis 1974/1975. The second half of the decade saw a contest between progressive alternatives to the Keynesian welfare state and neoliberalism. The former failed because of the inability of progressive movements to build a historical bloc that would have been able to pursue alternative economic policies, and ultimately the transition to socialism, against opposition from capital owners and their middle-class allies. Empirical evidence from Britain, France, Germany, and Sweden is presented to develop this historical argument. The last part of the article makes some comparisons between the legitimation and the economic crises of the 1970s and today. It concludes that progressive alternative relies on the convergence of the interests of certain social strata into a historical bloc for progressive change.

No social order is ever destroyed before all the productive forces for which it is sufficient have been developed, and new superior relations of production never replace older ones before the material conditions for their existence have matured within the framework of the old society.

—Karl Marx

As has already been argued, lasting full employment is not at all to their (the “business leaders”) liking. The “workers would get out of hand” and the “captains of industry” would be anxious to “teach them a lesson.” (…) In this situation a powerful block is likely to be formed between big business and the rentier interests, and they would probably find more than one economist to declare that the situation was manifestly unsound.

—Michal Kalecki
There is no alternative.

—Margaret Thatcher

Another world is possible.

—World Social Forum

The 1970s began with New Left and labor activism and ended with the transition of Keynesian welfare states into neoliberal capitalism. In between were attempts, following the world economic crisis 1974/1975, to merge left-wing activism with a macroeconomic strategy of transition from capitalism to socialism. These alternative economic policies are largely forgotten today. Efforts to advance them, including their ultimate failure, contain some lessons for today’s search for progressive alternatives to neoliberalism.

This article argues that left-wing activism of different kinds undermined the legitimacy of Keynesian welfare states from the late 1960s to the early 1970s. Yet the combination of accelerating inflation, currency crises, economic downturn, and mass unemployment that marked the period from 1973—the first oil-price shock and the collapse of the Bretton-Woods currency system—to the world economic crisis 1981/1982—triggered by interest-rate raises of the U.S. central bank—met left activists and strategists largely unprepared. These new conditions led to a regrouping among the forces of labor. Rank-and-file militancy, which relies on workers structural power at the point of production, was severely weakened, whereas the associational power of unions and social democratic and communist parties gained more prominence. Yet unions and parties were divided between a moderate wing pursuing corporatist strategies to save the Keynesian welfare state and a progressive wing suggesting a gradual transition to socialism. These divisions corroded the historical bloc on which the Keynesian welfare state rested during the postwar boom. This corrosion opened the space for the emergence of a neoliberal bloc that attracted not only capitalists and middle class people but also workers who were discontent with the Keynesian welfare state. Yet the ultimate swing to neoliberalism should not obscure the fact that there were also progressive alternatives.

The first part of the article reviews a variety of analyses of neoliberal capitalism to show why it is so difficult to remember alternatives of the past and envision new ones today. The second part presents three stylized policy regimes—the Keynesian welfare state, the neoliberal state, and an alternative economic policy regime—that will guide the comparative analysis in the third part. Evidence from Britain, France, Germany, and Sweden will be used in this major part of the article to analyze the contest between neoliberal and alternative economic policies that developed out of the delegitimization of the Keynesian welfare states in these countries. What this comparative analysis reveals is that the reasons for the failure of the alternative economic policy regime had similar reasons in all four countries even though they differ in terms of institutional settings, electoral cycles, and their respective positions in the international economy. The last part of the article draws some lessons from the failure of the
alternative economic policies of the 1970s for today’s efforts to build alternatives to neoliberal capitalism.

Neoliberalism: The More We Know about It, the More It Looks Like the Natural Economic Order

Whatever happened to the spirit of protest that swept the world in the late 1990s and early 2000s? In the face of permanent war, world economic crises, and a new round of austerity measures, in other words, in a situation when another world is desperately needed, hardly anyone suggests that it is possible. Struggles against layoffs and the slashing of wages, benefits, and public services are defensive in nature and lack a strategic vision around which such specific struggles could coalesce into a broader movement for progressive change. Counterintuitive as this may seem, the economic crisis of neoliberal capitalism was quickly followed by a resurgence of neoliberal ideology and politics. One of the reasons for this resurgence may lie in widespread understandings of neoliberalism. Claiming that another world is possible is one thing, demonstrating how to get there, particularly under conditions of crises, is another. On this latter score, it seems that most progressive analyses of neoliberal capitalism actually reinforce, maybe unintentionally, the idea that there are no alternatives (Kesselman 1992).

One strand of analyses suggests that economic globalization allows firms to bypass any social or environmental standards they deem as an impediment on their profits (Greider 1997; Scharpf 1991). This argument implies that countries around the world have entered a race to the bottom and converge around the same minimum level of government regulations. However, empirical observation shows otherwise. Different social standards and institutional divergence across countries led some scholars to suggest that Anglo-Saxon market capitalism is just one variety of capitalism that might as well coexist with others, such as state capitalism in France or Germany’s managed capitalism (Schmidt 2002). What the varieties of capitalism literature (Hanké 2009) fails to consider, though, is that institutional divergence, instead of demonstrating the existence of varieties of capitalism, can also hint at country-specific forms of neoliberalism (Schmidt 2008). The Keynesian welfare states of the past looked different from one country to another, and this is also true for today’s neoliberal states. A stronger presence of the state or corporatist institutions in economic decision making in some countries does not mean that their interventions contradict the neoliberal agenda. There is more than one way to neoliberalism. Particularly striking in this respect is that the variety of capitalism literature presents Britain as a showcase for neoliberalism as if it had never been a pacemaker and role model for welfare state building in postwar Europe (Sassoon 1996, chap. 6).

In slightly exaggerated terms, one can say that the globalization literature sees no alternative to the transition from Keynesian welfare states into neoliberal states. Pointing at path dependency as a protective shield against the disruptive force of global capital flows, the varieties of capitalism literature denies that
there is a problem and that states can stick to the institutional settings they have adopted in some distance past and thus escape a neoliberal future.

Luckily, there are also less economistic analyses of neoliberal capitalism that recognize the turn of capital against the welfare state; a turn that was particularly sharp where labor had been strongest during the postwar era of welfare capitalism (Prasad 2006). In this “neoliberalism-as-political-project” approach, ideas, and the individuals and institutions that advanced them, serve as the key factor to explain a regrouping within capitalist classes and their subsequent turn from Keynes to Friedman and Hayek (Blyth 2002; Cockett 1995).

The way the works treat ideas, class formation, and politics resembles a bourgeois mirror image of Lenin’s theory of a party of a new type. Instead of Marxist revolutionaries infiltrating the working class and drawing them into battle, we see neoliberal economists educating capitalists about the shortcomings of class collaboration and mobilizing them for the final battle against unions and workers parties. Yet the neoliberal version of this ideational approach neglects one point that Lenin never forgot to consider—the strength and weaknesses of their respective adversaries. The ideational literature on neoliberalism treats capitalists as if they were the only class around; whatever their policy choices are, there simply is no working class that could possibly stop them. These analyses may reflect the defeats that workers suffered in many countries quite well, but they cannot explain why workers were defeated in the first place. This latter question is sometimes answered with hints at the transition from industrial capitalism to postindustrial society, in which objectively existing working classes evaporate into the thin air of individuals with a taste for libertarian values (Kitschelt 1994).

Simply put, the working class lacks the troops to battle the neoliberal onslaught. If this was true, the neoliberal offensive looks more like Don Quixote’s struggle against windmills than a well-planned class action. More importantly, none of the aforementioned approaches to neoliberal capitalism considers alternatives beyond capitalism. Whether the focus is on the transition from Keynesian welfare states to neoliberalism or on the continuing existence of different varieties of capitalism; the socialist challenge to capitalism that haunted capitalists for much of the 20th century simply does not exist in most analyses of neoliberal capitalism. Socialist strategies that were on the political agenda in the 1970s before neoliberalism became hegemonic in the 1980s are rarely even mentioned. Where this is the case, they appear more as a prelude to the irresistible rise of neoliberalism than genuine alternatives that could have prevented this rise (Harvey 2005, 12–13; Glyn 2006, 15–21).

Overall, political economy approaches that are written from either social democratic or Marxist perspectives paint a pretty comprehensive and nuanced picture of the rise and consolidation of neoliberal capitalism, no matter what one thinks about the shortcomings of any particular approach. Yet they typically confirm Margaret Thatcher’s claim that there is no alternative to neoliberalism that the Keynesian welfare state is a thing of the past, and any kind of socialism is unthinkable. This, probably unintended, confirmation of the neoliberal
Zeitgeist contrasts strikingly with historical accounts of the 1970s; a decade that started with so much left-wing enthusiasm, fuelled by labor unrest, new social movements, and anticolonial revolutions (Horn 2008). Even if one has doubts whether revolution was in the air (Elbaum 2002), one has to concede that discontent with then existing Keynesian welfare states was rampant, that it was articulated by various currents on the left, and that this left-wing discontent spurred a curiosity for socialist alternatives of all sorts. Economic crises of the mid-1970s (see growth and unemployment rates in the Data Appendix) certainly took the high spirits out of the left (Cowie 2010, chap. 5; a collective sadness) and shifted the political agenda toward defensive struggles against losses of jobs, wages, and benefits. However, despite rising levels of unemployment, labor’s combativeness was not broken yet (see strike days and union density in the Data Appendix). On the level of strategy, the far-reaching but also very dispersed ideas that inspired left debate in the early 1970s were superseded by more comprehensive strategies that, on the most general level, blended Marxist and Keynesian ideas and aimed at a gradual transition from capitalism to socialism (Boccara 1977; Holland 1975; Hufschmid and Schui 1976; Meidner et al. 1978). To be sure, not everyone who advocated this kind of Marxist and Keynesian blend in the 1970s was serious about the socialist goals of these strategies; some saw them as a chance to integrate New Left intellectuals and rank-and-file militants into the old Keynesian welfare state project. Be this as it may, alternative economic policies did gain some traction among left-wing intellectuals, within unions, communist, and social democratic parties. By doing so, they represented an alternative to the Keynesian welfare state and neoliberal capitalism alike.

Sure enough, neoliberalism rose to hegemony over the course of the 1980s (Schmidt 2008) like Keynesianism did in the 1940s and 1950s (Hall 1989). Digging short-lived alternatives that were advocated by the left in the late 1970s out of the dustbin of history may thus look futile. Yet there are some similarities between the 1970s and the present that suggest that anyone interested in left-wing alternatives today could learn something from the failures of the past. New Left activism undermined the legitimacy of the Keynesian welfare state; antiglobalization protestors did the same with neoliberal capitalism. Both movements were derailed by economic crises, but whereas the alternative economic policies of the late 1970s tried to save at least some of the New Left enthusiasm and build it into a left-wing project under conditions of economic crises, the gap between progressive visions and alternative programs is wide open today. Using the Old Left language from the 1920s, one could argue that the alternative economic policies of the 1970s resembled a transitional program toward socialism, whereas today we see a maximum program—advocating a progression toward communism in philosophical terms (Badiou 2010)—and a minimum program that seeks to reinvent the Keynesian welfare state (Dullien et al. 2011). Real progress, though, depends on connecting communist, or socialist, visions with day-to-day struggles and, while doing this, building the social base that is necessary to overcome capitalist resistance.
Stylized Policy Regimes

For the purposes of this article, policy regimes are defined as state activities that affect the decisions of private economic agents by setting the rules of the capitalist game, namely through the definition of property rights and law, or demand management by fiscal authorities and central banks. These regimes are stylized in the sense that the core features of every single one of them can take on different institutional forms in different countries but produce similar policy outcomes. It is important to note that policy regimes impact capital accumulation and income distribution in various ways but are not their major determinants. This view is different from the concept of accumulation regimes used by regulation theorists who see coherent sets of institutional forms as the key factor ensuring capital accumulation (Aglietta 1979; Boyer 1990). Another important qualification is that governments or other state authorities cannot pick regimes from a policy menu like people in a restaurant pick their meals. The position of governments is more like that of a chef who has to consider the profit interests of the restaurant owners and to keep the customers satisfied. In more scholarly terms, policy regimes represent, execute, and reinforce the social interests of historical blocs (Gramsci 2000, chap. VI) under changing economic conditions. Failure to do so leads to the disintegration of any given historical bloc, political crises, and conflict over the making of a new historical bloc and the emergence of a new policy regime. In contrast to the neo-Gramscian literature (Cox 1987; van der Pijl 1998), which has a bias toward understanding historical blocs and hegemony as the outcome of elite projects, this article sees such blocs as the outcome of class struggle. This last point is of crucial importance to understand the changing compositions of capitalist and working classes as factors determining their respective capacities in organizing historical blocs and establish policy regimes.

The Keynesian Welfare State

Economically, this regime stabilizes the development of aggregate demand so that high levels of employment, rising real wages, and steady rates of profit can be achieved at the same time. The stabilization of demand rests on automatic stabilizers, such as a progressive tax system and unemployment benefits, and discretionary government spending that smoothes out the business cycle. Links between real wages and productivity growth, through the recognition of collective bargaining or more directly through different forms of incomes policy, ensure that demand keeps up with production capacity over the long run. In return for union recognition, rising real wages, and the establishment of a social wage, organized labor and social democratic parties recognized capitalist property including the right to manage. They also took responsibility of suppressing, marginalizing, or at least containing political forces on the left that sought to establish genuine socialism instead of limiting themselves to social reform within capitalism. The functional distribution between wages and profits remained,
apart from minor ups and downs over the business cycle, fairly constant under Keynesian welfare state regimes; a certain compression of income inequality was achieved through tax and public spending policies rather than a shift from profits to wages. Moreover, wage bargaining could limit inequalities within the labor force. The Achilles heel of the Keynesian welfare state was that high employment levels encouraged workers to ask for more without the fear or losing their jobs. As a minimum, they were in a position to defend their real wages in case of any external inflationary shock, such as the inflationary way of paying for the Vietnam War in the late 1960s or rising oil prices in the 1970s. Either way, in an attempt to maintain their profit rates, employers would retaliate through price increases and thus produce the accelerated inflation they needed as a pretext to turn against the Keynesian welfare state.

**The Neoliberal State**

Adherents of the neoliberal state consider collective bargaining and the welfare state as institutions encouraging rent-seeking behavior and as deterrents to entrepreneurial activity. To restore the latter, and thus unleash economic growth, unions and the welfare state had to be rolled back. Yet the antistatist rhetoric that neoliberals use to pursue their agenda is misleading. Their goal is not to reduce state capacities but to turn them against unions and social spending. Even high shares of taxes and government spending are compatible with neoliberal goals as long as they are used to boost private wealth. Another aspect of neoliberal rhetoric that could be misleading is its insistence that supply creates demand, also known as Say’s law, so that any kind of demand management by the state or collective bargaining is either useless or even harmful. Actually, existing neoliberalism, by contrast, relies on all kinds of political interventions to avoid shortages of insufficient demand. This is particularly true for measures that spur financial investments and credit-driven demand. The dialectic of finance-led accumulation is that it produces stock-market bubbles and financial crises that can only be contained with the help of large-scale government bailouts. Exploding public deficits, caused by this kind of intervention, then serve as an excuse for another round of austerity measures.

**Alternative Economic Policies**

The policy regimes of the Keynesian welfare state and the neoliberal state can be derived not only from intellectual works but also from government policies that were pursued over longer periods of time. In fact, during the 1950s and 1960s, even conservative governments helped to build Keynesian welfare states, although this regime can be seen as the embodiment of social democratic strategies and goals under Cold War conditions rather than anything catering to conservative tastes. From the 1980s until today, the reverse is true. Now, even social democrats follow the neoliberal agenda that a new breed of conservatives launched in the 1970s. By contrast, economic policies
that were developed as a progressive alternative to the neoliberal–
neoconservative turn are much more present in books, speeches, and resolu-
tions at union or party conventions than in applied policies. They were
conceptions that never made their way into practice. The notable exception to
this rule is France, where, at a time when the neoliberal turn in leading capi-
talist countries like the U.S., Britain, and Germany had already taken place, a
socialist–communist coalition started their term with a mix of nationalizations,
work-time reductions, minimum-wage increases, and Keynesian pump
priming—and turned to austerity halfway through their term. It will be argued
later in the article that this turn does not, as most scholarly work suggests,
indicate the inevitability of neoliberalism. Here, it suffices to sketch out the
contours of alternative economic policies.

Their point of departure from the Keynesian welfare state is the recognition
that capitalist’s right to manage also includes the possibility to undermine or
boycott government policies and collective bargaining through price increases,
investment strikes, and/or the implementation of labor-saving technologies.
Thus, capital maintained the upper hand in Keynesian welfare states. The
institutionalized subordination of labor, advocates of the alternative economic
policies suggested, could be overcome through nationalization of key industries
and the implementation of one kind of industrial democracy or another in
private companies. Industrial democracy incorporated some New Left ideas
about direct democracy and appealed to some of the activists who were engaged
in the rank-and-file labor struggles from the late 1960s to the early 1970s. The
decision-making power of private capital should have been further restricted by
capital controls.

The capacities of multinational corporations to bypass national standards
and the role of supranational institutions, namely the European Union (EU),
in enabling such bypassing strategies were clearly identified as a problem for
the Keynesian welfare state and, even more, the alternative economic policies.
The gradual push back of private property that characterizes alternative eco-
nomic policies picked up the socialist reformism that social democrats had
abandoned when they turned from Kautsky and Hilferding to Keynes in the
1950s. In the 1970s, alternative economic policies tried to incorporate this
older reformism into the macroeconomic framework of Keynesianism. In con-
trast to Kautsky and Hilferding, whose strategic thinking was entirely focused
on economic and political structures, the importance of high employment
levels and demand management as a way of achieving them was clearly under-
stood by intellectuals like Stuart Holland, Paul Boccara, or Rudolf Meidner
who wrote important blueprints for alternative economic policies in the 1970s.
What they did not see, at least not at the time of writing, was that not every-
one who advocated these policies intended to go all the way from capitalism to
socialism. Some people in unions and social democratic parties who realized
that the Keynesian welfare state had lost much of its original attraction by the
late 1960s just sought to redress their old project in a style that looked more
fashionable in the 1970s. The alliance between people pursuing alternative
economic policies as a transitional program to socialism and those using them as a marketing device for the Keynesian welfare state turned out as a major stumbling block when the time came to advance these policies against the emerging neoliberal bloc.

**Comparative Analysis**

Gramsci (2000) defines historical blocs as the “complex, contradictory and discordant ensemble of the superstructures (that) is the reflection of the ensemble of the social relations of production” (p. 192). The stability of any historical bloc relies on coercion and consent; if the latter collapses no level of coercion can ensure the continued existence of a given historical bloc. In this case, a crisis unfolds that either leads to the formation of a new bloc or may even pave the way to a socialist society. The Keynesian welfare state rested on a bloc that was formed around a compromise between organized labor, mostly semi-skilled or skilled blue-collar workers, and large industrial corporations. The former got the right to negotiate wage increases, the latter got industrial peace and, thanks to increased wage bills, a stable customer base. This compromise facilitated a mass-production mass-consumption economy, which, in turn, allowed the integration of segments from all classes. Local businesses benefited from growing wage bills as much as big corporations. The latter ruined a good number of small businesses, and thus furthered proletarianization of capitalist societies, but they also offered jobs that were more secure and paid higher incomes than many struggling farms, corner stores, or craft shops ever could. Moreover, a growing public sector workforce provided workers and their families in the private sector with child care, education, hospitals, and the administration of the social wage.

Private corporations who needed to boost productivity constantly so that they were able to pay higher wages without impeding their profits hired growing numbers of engineers and managers who developed new technologies and reorganized labor processes. Thus, the Keynesian welfare state bloc included everybody from industrialists, through managers and engineers, down to public and private sector workers with varying skill levels. It almost looked like a society beyond class conflict and ideological strife. Unprecedented prosperity during the postwar period cemented this impression, and thus the cohesion of the welfare state bloc, even further. In the 1950s or early 1960s, hardly anyone expected political or economic challenges to the Keynesian welfare state.

*A Crisis of Legitimacy of the Keynesian Welfare State*

But then the challenges came with a vengeance. Student protest in the late 1960s was just the foreplay or accompaniment to the industrial militancy that shook the economic core of the Keynesian welfare state from the late 1960s to the world economic crisis of 1974/1975 (Crouch and Pizzorno 1978). Workers, skilled and unskilled alike, fought for higher wages to compensate real wages
losses caused by accelerating levels of inflation (for inflation, strike activity, and union density since 1970, see Data Appendix). Skilled workers also sought to replace hierarchical forms of organization with more flexible models and with less direct management control. The most striking example for such efforts is the development of the French Confédération française démocratique du travail (CFDT). This union of skilled workers and professionals had been more conservative than the blue-collar-based and communist-led Confédération générale du travail (CGT) throughout its history but moved considerably to the left since the late 1960s and adopted many ideas that were popular among student rebels; namely the, admittedly rather vague, concept of autogestion, which was seen as an alternative to the technocratic rule in capitalist corporations and the state (Ross 1982, 223; Wall 1986).

Unskilled workers, often immigrant or female, struggled against speedups and rigid forms of control that were often loaded with racist or sexist discrimination. They also challenged existing wage scales that drove a wedge between the incomes of skilled and unskilled workers (Vartiainen 2001, 32 pp). An example of such struggles is the wildcat strike by immigrant workers at the Ford plant in Cologne that was met with severe hostility by German workers and the union (Crouch 1978, 213; Markovits and Allen 1984, 135). This example is also a reminder that labor militancy, although widespread, was often very segmented and, in some cases, accompanied by infighting among different groups of workers rather than by the formation of a united labor front against capital. On the other hand, discontent with the Keynesian welfare state extended fragmented struggles beyond its industrial core. It also seized public sector workers who tried to catch up to the wage levels organized workers in private industries had achieved during the postwar boom and waged some major strikes toward this end (Crouch 1978, 204; Eley 2002, 392; Markovits and Allen 1984, 146).

Moreover, the women’s movement and the environmental movement opened new fronts of political struggle. Women, whose struggles partly overlapped with the militancy of low-paid female workers in private industries and with the rapid increase of female employment in the public sector, fought against the male-breadwinner model that was so typical for the Keynesian welfare state. Consequently, they asked for better access to education and employment for women and also, to overcome their assigned roles as primary care-givers in private households, for an expansion of publicly provided care facilities. An even more fundamental critique came from the emerging environmental movement whose activists rejected the wasteful combination of mass production and mass consumption. Industrialists and politicians dismissed such criticism very often as hopelessly romantic and backward, but the environmentalists got unexpected support from scientists who predicted limits to growth because of a depletion of natural resources (Meadows et al. 1972) and from oil exporters who jacked up prices massively in 1973 and again in 1979. Attempts to overcome rising costs of fossil energy through an expansion of nuclear energy production turned previously small circles of environmentalists into combative mass movements. In 1976, Swedish social democrats, viewing themselves as the natural ruling party, were
voted out of office for their plans to build more nuclear power plans (Korpi 1978, 330). For the same reason, Germany’s social democrats lost voters to the newly formed Green Party. Only French socialists could attract voters over the course of the 1970s, despite their support of nuclear energy (Kesselman 1985, 235).

Labor militancy and the new social movements of women and environmentalists challenged the Keynesian welfare state and its underlying economic basis from different angles. There was some overlap between these movements, but other occasions saw sharp conflicts between and even inside them. The question whether a convergence toward a more unified movement, agreeing on a set of strategies and more coherent goals, would have been possible never occurred because the world economic crisis 1974/1975, which surprised almost everybody, rendered mobilization strategies that were formed in times of prosperity ineffective. Yet the “discontent-in-times-of-prosperity” mobilizations from the late 1960s to the early 1970s had severely undermined the legitimacy of the Keynesian welfare state. The legitimation crisis (Habermas 1975) this discontent had produced had an effect on the ways social movements and political organizations adjusted to conditions of economic crisis.

The Unmaking of the Welfare State Bloc

The economic crisis 1974/1975, which hit Sweden belatedly in 1977, led to intense distributional conflicts along three axes: between wage earners and capitalists in general; between organized groups, notably unionized workers, and unorganized groups, such as marginally employed workers, students and old-age pensioners; and, finally, between private and public sector workers. These conflicts destroyed the truce not only between labor and capital but also between different layers of working and capitalist classes, on which the welfare state bloc was built.

Labor militancy before the crisis had already caused concerns about future profits among capitalists; the crisis, with its shortfalls of revenue, made such concerns their top priority. Price increases were used as an emergency measure to maintain profits in the face of declining sales volumes. This kind of crisis adjustment was possible because monetary policies remained loose until the Volcker shock; only the German central bank tightened money supply after the first oil-price shock in 1973 and withstood pressures to loosen their grip in the face of the 1974/1975 crisis. Workers, on the other side of the class divide, were still able to defend their real wages, or even made further real wage gains, despite rising unemployment. Union density was still high or, triggered by the preceding wave of labor militancy, even rising. Fear for job loss was also still low because it was widely believed that the crisis was just a temporary deviation from prosperity rather than a turn to a general growth slowdown. Nominal wage increases thus helped workers to get the burden of crisis adjustment off their backs. Workers’ success to stand their ground in the distributional struggle with capital is documented by the wage share that remained rather constant or even increased after the crisis in all four countries under investigation (see Data Appendix).
Of course, it should also be mentioned that profits are more volatile than wages over the business cycle so that the sharp fall of profits caused by a recession automatically leads to a relative rise of the wage share. Capitalists were quick to point at this statistical effect to demonstrate how irresponsible unions had caused a profit squeeze and were thus responsible for the crisis. Yet it was not until the Volcker shock that union’s bargaining power was severely weakened. Volcker’s turn to tight money was geared at inflation and unions in the U.S. but, not surprisingly if one considers the role of the U.S. dollar as world currency, quickly jacked up interest rates throughout the capitalist world. The outcome was another world economic crisis between 1980 and 1982, which sent unemployment soaring and destroyed the norms of wage setting that had been established under the reign of the Keynesian welfare state.

Between the crises of the mid-1970s and the early 1980s, inflation continued or even accelerated and led to a new kind of distributional conflict that was unknown to capitalism before the welfare state. Inflation caused income losses for people who did not have the bargaining power to negotiate nominal wages, such as marginally employed workers, or those politically too weak, such as students and old-age pensioners, to enforce inflation indexation of their incomes. These unorganized and insufficiently represented groups felt increasingly as outsiders who paid the price for the deals struck among organized labor, capital, and the state. Most of them were clearly beneficiaries of the welfare state that had opened the doors to mass education and introduced social insurance for unemployed and retired workers. Yet inflation and the real income losses it caused led to growing fears that they might be excluded from the economic well-being that organized groups enjoyed even in times of crisis. As a result, support for the welfare state among these groups faltered.

The welfare state bloc was further eroded by the deepening conflict between private and public sector workers. Naturally, welfare state expansion came at the price of higher taxes. As long as prosperity lasted, this was no big deal. With the onset of the crisis, though, private sector workers, pressured by intensified competition, came to see them as a subsidy to underachieving public sector workers or lazybones collecting welfare checks instead of doing hard work. In turn, public sector workers, many among them are women, fought for recognition of their work, which meant to struggle for wages comparable with those paid in the private sector. The higher rungs of the public workforce, typically equipped with university degrees, went even further and asked for skill premiums beyond average blue-collar wages. Ensuing conflicts between private and public sector workers could take on different forms. In Sweden, where bargaining was highly centralized, competition between public sector unions, who tried to get ahead of blue-collar wages negotiated in private industries, and private sector unions, defending their role as pace-makers for all workers, first led to a disconnect between the bargaining processes of both sectors and then to a frontal attack by employers against centralized bargaining, which included large-scale lockouts in 1980 (Garret and Way 2000; Martin 1984, 310–23; Swenson and Pontusson 2000).
By contrast, private and public sector unions in Britain, where bargaining has always been fragmented, tried to compensate for real wage losses that a Labour government had legislated upon them. These efforts led to a major strike wave in 1978/1979, the so-called Winter of Discontent, which began with private sector workers walking off their jobs and ended in a major standoff between public sector unions and employers (Bornstein and Gourevitch 1984, 63). The Thatcher Conservatives successfully used this conflict to attract private sector workers in the 1979 elections (Hay 1996). Although the move from large-scale strikes to conservatism and neoliberalism was more dramatic in Britain than in any other Western country, it is indicative for the general erosion of the welfare state bloc. People belonging to unorganized groups who had struggled to catch up with levels of income and job security achieved by unionized workers before the 1974/1975 crisis turned against the welfare state in increasing numbers after the crisis. By the end of the 1970s, many organized workers were also looking for alternatives to the welfare state.

**Looking for Alternatives**

Discontent with the Keynesian welfare state and the subsequent taste for alternatives developed around a number of issues. One was the technocratic and hierarchical character of the welfare state and workplaces. These structures were increasingly seen as an offense to individuals’ aspirations, capacities, and dignity. Significant groups of society, notably women and immigrant workers, were marginalized by the welfare state. Hopes to overcome their exclusion from the material gains of the Keynesian welfare state were dashed by economic crises. At the same time, core groups of workers increasingly felt they had to pay the cost of the welfare state without sharing the benefits of job and income security. To attract a social basis, alternatives to the Keynesian welfare state had to address these issues one way or the other.

Neoliberalism proved to be very creative in this respect. Removal of union and state control over individuals’ lives, the alleged key features of the Keynesian welfare state, would create a world of equal opportunities regardless of gender or ethnic origin. The neoliberal promise of liberation from the restrictions imposed on individual self-fulfillment by legal standards and union contracts integrated New Left critique of the administered world into the body of neoliberal ideas that intellectuals like Hayek and Friedman had developed during the reign of the Keynesian welfare state (Boltanski and Chiapello 2007). The free society that had inspired so much New Left thinking and activism was redefined as free market, and this core message could be sold in different variations. Unemployed workers were told that they could get the desired job if minimum wages were lowered and union contracts were abolished. Unions were also presented as gatekeepers that kept women out of the labor market and created inequalities between domestic and immigrant workers. Critics often charged this “free-market-solves-all-problems” program with oversimplicity. Yet such criticism misses the point. The free market is for neoliberalism what the 8-hour day
was for the 2nd International, Soviet power and electrification for the 3rd International, and demand management for the Keynesian welfare state—a rallying cry to garner the troops rather than the conceptual tool box for differentiated analyses. In fact, simplicity turned out as a true selling point for neoliberalism. This is particularly obvious in comparison with the much more sophisticated alternatives suggested by the left.

Generally speaking, these alternatives aimed at fixing the problem of technocracy within firms and states through economic democracies and promised to open the doors of the welfare state to hitherto excluded or marginalized constituencies; for example, through targeted housing, education, and employment programs. Macroeconomic problems such as unemployment and the unequal distribution of incomes should be solved through redistribution, general jobs programs, and industrial policies, including nationalizations. The latter was also seen as a means to deal with ecological problems. If there was a unifying theme behind these suggested measures, it was the opposite of the free-market program: more, instead of less state, added by democratization of the state and the economy. In the far distance, one could see the contours of a socialist economy in which self-organization would replace top-down control by private property owners and state functionaries. Yet, whereas neoliberals always pointed at their utopia of a free market, advocates for alternative economic policies for most parts were hiding their socialist visions behind the immediate goals of an extended welfare state. Despite their name, alternative economic policies always had a taste of the old Keynesian project. This turned out as a major disadvantage in the contest with neoliberalism.

In 1974, the British Labour Party campaigned for an Alternative Economic Strategy (AES) that would end the subjugation of wages, employment, and public services to the interests of Britain’s financial sector in general and the defense of a strong pound in particular. Yet confronted with inflation and recession after the 1974/1975 crisis, the newly elected Labour government turned to incomes policies as a means to combat inflation and to restore business confidence. Repeated calls for wage restraint exhausted the allegiance of Labour’s union allies and led to the Winter of Discontent, in which strikers confronted not only private bosses but also the Labour government. As already mentioned, the face-off between Labour and the unions paved Margaret Thatcher’s way to Downing Street no. 10 (Callaghan 2000). As opposition party since 1979, Labour adopted the AES more wholeheartedly than it had done as a governing party or during the 1974 election campaign (Hopkin et al. 1982). Yet the resounding defeat in the 1983 election was used by right-wingers in the Labour party to start a counter-offensive against the AES that led to years of infighting and, eventually, the rise of New Labour (Panitch and Leys 1997). Advocates of the AES argued over the proper balance among state intervention, industrial democracy, and internationalism. They also pondered the risks of provoking a Chilean-style coup against the gradual transition to socialism that the AES, if taken seriously, implied (Aaronovitch 1986; Cripps 1981; Rowthorn 1981). Differing, sometimes conflicting, interpretations among AES advocates
are an intellectual expression of the difficulties of building a progressive bloc against the rise of neoliberalism.

On this score, France looked much more promising. After their defeat in the 1972 election, French Communists (PCF) and Socialists (PS) had agreed on the Program Commun, in which the PCF and its union ally CGT, represented statist traditions whereas the PS and the CFDT adopted autogestion, the French variant of New Leftism. Reaching out to the Old and New Left alike should have been a good basis for the making of a left bloc. Yet there were severe cracks even before the bloc was built. PS flirtations with New Left ideas, which remained vague enough to contain fairly different meanings, were so successful that the PS passed the PCF as the strongest electoral force on the left in the 1978 election. However, PCF leaders still saw themselves as the voice of the whole working class and, it should be added, neglected the changes in the composition of that class over the postwar period (Ross 1987). Consequently, they abandoned the Program Commun once they were relegated to secondary status (Sassoon 1996, chap. 19). Despite the split between Communists and Socialists, PS-candidate Mitterrand was elected president in 1981, and the PS and PCF together had enough seats to form a government.

Taking office in the middle of a world economic crisis, the focus of the newly elected government was on Keynesian reflation. Nationalization of major enterprises and substantial increases of the minimum wage satisfied PCF members in the cabinet (Lombard 1995). These first injections of alternative economic policies were enough to shelter France from the recession that bedeviled the world economy in the early 1980s. Yet they could not prevent, albeit modest, increases in unemployment and, despite a string of devaluations of the Franc, a massive deterioration of the current account. Rising unemployment and deficits in the current account was also fuelled by an investment strike against the left-wing government and its alternative economic policies. Capital formation was negative from 1981 to 1984. Thus, the government had the choice between abandoning these policies and pursuing them against capital. The latter strategy would have required large-scale mobilizations on the left and further steps to replace private property rights by whatever kind of industrial democracy. Faced with this choice, it turned out that the PS was quite unwilling to mobilize the motley crew of postindustrial workers it had attracted as voters in the name of autogestion (Kesselman 1985). At the same time, PCF capacities to mobilize were limited because of its narrow focus on a dwindling blue-collar base. Fully aware that the PCF could not follow this step, Mitterrand turned to austerity in 1983 (Lombard 1995). He was not the first social democrat, or socialist, slamming the macroeconomic brakes, but he was the first who did not do so as part of short-term demand management but to change course from Keynesianism to neoliberalism (Lordon 2001; Sachs and Wyplosz 1986).

Germany did not see dramatic events such as the Winter of Discontent in Britain or Mitterrand’s turn from a coalition with the Communists to embracing neoliberalism. Alternative economic policies were first suggested in 1975 by a group of Communists (DKP), left-leaning Social Democrats (SPD), and
unionists after the SPD government had imposed austerity measures to combat inflation (Markovits and Allen 1984, 148, 170 pp). These measures, though, were meant as a cyclical adjustment within a Keynesian framework rather than a turn to neoliberalism. In fact, Chancellor Schmidt, instead of replacing one set of domestic economic policies by another one, thought to internationalize, or at least Europeanize, Keynesianism. To this end, he had initiated the first G5 summit in 1975, agreed to domestic fiscal stimulus as a means to spur world economic growth in 1977 and launched, in cooperation with the European Economic Union, a forerunner of today’s EU, the European Monetary System (EMS) in 1979. Highly aware of international constraints on domestic Keynesianism, particularly after the collapse of the Bretton-Woods system, the Schmidt government miscalculated the character of the 1974/1975 crisis.

Keynesian textbook models assume a trade-off between inflation and unemployment so that the Keynesian policy instruments can tackle one problem at a time. Yet, in the mid-1970s unemployment and inflation rose in tandem, a phenomenon later known as stagflation. Under these circumstances, Keynesian policies gearing to fix one problem would invariably make the other one worse. In 1975, Schmidt gave priority to fighting inflation and left employment programs for a later day. Yet that day had hardly begun when the second oil-price shock hit in 1979. Soon thereafter, fiscal tightening resumed. Equally ill fated, at least from the perspective of international Keynesianism was the EMS. Intended to contain exchange rate volatility and its disruptive effects on domestic production and employment levels, the system turned out as a straightjacket for reflation measures taken during the first 2 years of the Mitterand presidency. On one hand, it did not allow significant devaluations that would have been necessary to contain escalating current account deficits. On the other hand, it passed German interest rates, jacked up by the central bank, unmitigated on to French investors who, unhappy with Mitterand and his Communist coalition partners anyways, happily moved money across the Rhine to Germany.

This problem could have been solved if Mitterand had abandoned the EMS and imposed stricter capital controls or by Schmidt taking measures against the Monetarist course of the German central bank. Yet such steps toward an alternative economic policy regime were not taken. As already shown, Mitterand decided against them, and the PCF was too weak to force him otherwise. The capacity of the left to rally troops behind alternative policies was even lower. Communists in Germany were much weaker than in France, and anti-communism was much stronger. Anyone supporting alternative economic policies was denounced as belonging to Moscow’s Fifth Column. Another problem was that Germany’s strongest union, IG Metall, had much of its membership base in export industries. Despite its demonstrated militancy—many supporters of the alternative economic policies came from the IG Metall—negotiators of that union always kept an eye of the competitiveness of German exports. For this reason, IG Metall leaders stuck to corporatism instead of struggling for alternative policies (Schmidt 1997, chap. 18; 2005). Alternative economic policies in Germany never made it beyond a think tank, the Memorandum Group, issuing
analysis and policy proposals annually (Memorandum 1978foll.). Ironically, the Memorandum Group survived the rise of neoliberalism and could establish itself as an intellectual point of reference for people discontent with neoliberalism. In the 1990s, it extended its reach by establishing the European Working Group for Alternative Economic Policies (http://www.euromemo.eu).

Contrary to Germany, where alternative economic policies were suggested by communists and fringe groups within the social democratic party and the unions, the Swedish brand of such policies came from the chief economist of the Swedish union federation (LO), Rudolf Meidner, who was well respected for his design of Sweden’s postwar economic model (Erixon 2010). Central to that model was the so-called solidaristic wage policy, which granted the same wages and wage increases to everybody doing the same work regardless of productivity and productivity growth of the firms they were working for. As a result, firms whose productivity was below the average were facing losses and eventually bankruptcy. At the same time, firms where productivity was above the average made surplus profits and thus had plenty of investment funds available. Retraining programs and subsidies for relocation helped laid off workers in the low-productivity sector finding new jobs in the rapidly expanding high-productivity sector.

Overall, the Swedish economic model combined a fairly even wage structure, added by redistribution through the tax system, with capitalist modernization. It relied much less on Keynesian demand management, which Meidner and his collaborators always criticized for its inflationary bias, than other Western economies. But it, too, represented a welfare state dependent on the fortunes of capitalist accumulation. And fortunes were made by Swedish capital as a result of the modernization spurred by the solidaristic wage policy. So much so that Meidner and others in the labor movement thought the balance of class forces was tipping toward capital. As a countermeasure, they suggested wage-earner funds that should have been financed through taxes on surplus profits and managed by the unions. As a result, an increasing share of Swedish investment would be under union control. Contrary to the postwar model, which was designed as a compromise between capital and labor (Lundberg 1985), the wage-earner funds intended the gradual transition from capitalism to socialism (Meidner 1993; Meidner et al. 1978).

The social democrats (SAP) were not too happy about LO attempts at pulling them to the left. After losing the 1976 election because of their support of nuclear energy, which they abandoned after regaining office in 1983, the SAP might have been quite happy sitting on the opposition benches when political conflict over the wage-earner funds—and the future of the welfare state more generally—was running high in streets and workplaces. Swedish capitalists clearly understood the socialist bias of the Meidner plan. As shown above, they were also on alert because of increasing union militancy. In the end, they launched a frontal attack on unions in 1980; the biggest labor dispute in postwar Sweden was a lockout that signaled the beginning of the decentralization of wage bargaining in Sweden (Sassoon 1996, chap. 17; Swenson and Pontusson 2000). At the same time, the conservative government, contrary to its ideological
commitments, used Keynesian reflation to keep unemployment low. They even went so far to nationalize a number of declining industries, namely shipbuilding. The combination of fiscal stimulus and nationalizations produced budget deficits much higher than in France where a left government pursued similar policies. After their reelection in 1983, Sweden’s social democrats presented themselves as a force of fiscal consolidation and launched a version of the wage-earner funds that was insignificant in scope and changed in character; instead of paving the way for socialism it invited workers into the emerging world of financialized capitalism.

**Conclusion**

A wave of labor militancy and the emergence of new social movements, notably environmentalists and feminists, challenged the legitimacy of the Keynesian welfare state in the early 1970s. What distinguished this New Left from previous movements was the near complete absence of concerns about unemployment and job security. Some activist groups went so far to suggest that not having a job was actually a welcome escape from capitalist exploitation rather than, as Old Lefties would have seen it, a sign of capitalism’s inability to create jobs for all. Yet the high spirits of the New Left vanished after the world economic crisis 1974/1975 swelled the ranks of the industrial reserve army to levels unknown since the end of the Second World War, but the legitimation crisis of the Keynesian welfare state remained. Moreover, the economic crisis deepened divisions between different segments of the historical bloc that had supported the welfare state project during the postwar boom. Labor militancy did not fade as quickly as New Left activism, but they fought on different fronts, mostly against wage-cuts and layoffs in their respective sectors of employment. Middle-class professionals and the upper tiers of the working class were increasingly concerned with taxes and, in their view, unfair subsidies to low-skilled and unemployed workers.

Alternative economic policies represented an effort to amalgamate the concerns of particular groups of workers into an overarching macroeconomic framework. Contrary to the rank-and-file mobilizations of the early 1970s, this was a rather statist approach. It’s implementation required government support, which, considering the case studies discussed in this article, existed only in France during the first 2 years of the Mitterand presidency. The Labour government in Britain, elected on an alternative economic policy platform just before the 1974/1975 economic crisis, turned to corporatist austerity soon and thus offended the unions who had been key to Labour’s electoral success. The SPD in Germany, although in office all through the 1970s, never adopted alternative economic policies as their program whereas the Swedish SAP did so half-heartedly but sat on the opposition benches when the battle between neoliberal and progressive alternatives to the Keynesian welfare state was fought in the late 1970s.
What is important, though, is that even a statist approach relies on support from outside state apparatuses. The convergence of particular concerns into a coherent set of policies that the alternative economic policies represented on the theoretical level did not correspond with the formation of a progressive bloc that could have ensured the implementation of these policies against the then emergent neoliberal bloc. There were progressive alternatives in the 1970s, but they lost the contest with neoliberalism, which appeared as a fresh and assertive force on the political scene of the time.

What are the lessons from the failed alternatives of 1970s for today? Neoliberal hegemony is under fire these days. Antiglobalization protestors who held the ever-increasing commodification of all facets of life responsible for increasing social injustices and environmental destruction first questioned its legitimacy. In terms of its goals, this protest generation, which burst onto the international scene with the anti-World Trade Organization demonstrations in Seattle in 1999 and reached a peak at the European Social Forum in Genoa 2 years later, was less ambitious than the New Left of the early 1970s. Compared with revolutions and socialisms of various kinds that had inspired their predecessors a generation earlier, the slogan of the World Social Forum, “another world is possible,” is fairly modest. On the other hand, antiglobalization protestors are much more aware of diversity than the New Left ever was. Instead of advocating privileged agents of change, “the working class” for socialists, “women” for feminists, or “oppressed people” for anti-imperialists, they sought to build a movement of movements. However, in contrast to the New Left whose different fractions were unified and inspired by opposition to the Vietnam War, the antiglobalization movement quickly faded when the War on Terror was declared by the Bush Administration and its North Atlantic Treaty Organization (NATO) allies. It is true that the war against Iraq triggered the largest demonstrations in world history, but it also signaled the end of the antiglobalization movement. However, the question marks this movement had put behind the wisdom of neoliberal policies remained. In fact, escalating costs of war and speculation made them even bigger, and after the Great Recession 2008/2009, even the least economically interested individuals had second thoughts about the economic system they are living in.

Not surprisingly, the combined crises of legitimacy and the economy caused a growing taste for alternatives. So far, it is mostly the political right that caters to such tastes. Two years after the recession, the most vocal movements, such as the Tea Party in the U.S. or right-wing populist parties in the Netherlands, Denmark, Finland, and some other European countries, cry for a radicalized version of neoliberalism, unimpeded by big governments, central bankers of international organizations.

Economic crises in the 1970s kept the political pendulum on the left by transforming New Left mobilizations into various forms of alternative economic policies; the swing to the neoliberal right occurred a few years later. The economic crises of today pulled the pendulum from this neoliberal right, with its preference for economic globalization, to a strange brew of nationalism and free-market fundamentalism. The rising tide of right-wing populism put
neoliberal mainstream politicians in a situation where they are attacked as state interventionists the same way they used to attack Keynesian-style social democrats when they were on their way to hegemony three decades ago. At the same time, the left end of the political spectrum is disorganized. Anti-austerity protests and strikes flare up occasionally, intellectuals discuss socialism, or even communism, philosophically but no practical philosophy, which would turn defensive struggles against austerity into a path toward socialist transformation, did emerge until now. Progressive economists suggest alternative economic policies similar to those that were developed in the 1970s, but their audiences among parties, unions, or activist groups remain small.

On the face of it, today’s left seems much weaker than it did in the 1970s. Nostalgia for the “red decade” makes it even more difficult to develop progressive alternatives. Against such a pessimistic outlook, one could argue, though, that the 1970s marked the end of a very long cycle of working class formation and struggle that had begun with the industrialization of Western countries and the imperialist penetration of the rest of the world in the mid- to late 1800 and came to an end with the creation of global production networks and the rise of global finance during the last decades of the 20th century. This cycle saw the making and unmaking of working classes and labor movements of all sorts: Socialists, syndicalists, and communists, craft unions and industrial unions, four Internationals, and a huge array of cultural and mutual aid organization. What began as a process of experimentation without recognizable direction in the mid-19th century took on competing organizational forms, mostly on the level of nation states, by the end of the century. After three decades of wars, revolutions, and counter-revolutions, labor movements were integrated into state apparatuses East, West, and South.

In the early 1970s, the New Left in general and the militancy displayed by marginalized groups of workers in particular signaled the limitations of labor’s integration into the state. Over the course of that decade, it turned out that the New Left could neither replace nor renew the Old Left. The split between these two lefts created the political vacuum that was eventually filled by neoliberalism. Once this has happened, the unmaking of 20th century labor movements was completed: Soviet communism collapsed, Chinese communists turned onto the capitalist road, Western social democrats took the third way to neoliberalism, and New Left libertarians converted from freedom for the people to free trade. Yet, while the superstructures of 20th century labor movements were melting into the thin air of neoliberal politics, the neoliberal economy was already creating the conditions for the making of new working classes. The left in its broadest sense may have been stronger in the 1970s, but it was moving on a downward slope; today’s left, although starting from a low point, has a chance to further new working classes into assertive movements for progressive change. Ideas, such as the alternative economic policies of the 1970s, that did not work in the past may better fit today, others, may need some updating, and some will follow 20th century’s labor movements into the dustbin of history. A new cycle of class formation and struggle has begun either way.
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References


## Data Appendix

### France

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<th>Inflation rate in %</th>
<th>Unemployment rate in %</th>
<th>Strike days</th>
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### Data Appendix

Continued

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GDP, gross domestic product; n.a., not available.
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GDP, gross domestic product; n.a., not available.
## Data Appendix Continued

### United Kingdom

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All data: European Commission, except Strike Days (International Labour Organization) and Union Density (Organisation for Economic Co-operation and Development). GDP, gross domestic product; n.a., not available.