


**Please cite the Published Version**

Bremer, Björn and McDaniel, Sean  (2020) The ideational foundations of social democratic austerity in the context of the great recession. *Socio-Economic Review*, 18 (2). pp. 439-463. ISSN 1475-1461

**DOI:** <https://doi.org/10.1093/ser/mwz001>

**Publisher:** Oxford University Press (OUP)

**Version:** Accepted Version

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# **The Ideational Foundations of Social Democratic Austerity in the Context of the Great Recession**

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*Forthcoming in Socio-Economic Review*

## **Abstract**

The ‘austerity settlement’ has come to define the post-crisis European political economy. Since 2010, parties from across Europe’s political mainstream have implemented austerity and despite the apparent conflict with the interests of their traditional constituents, even social democratic parties have acquiesced to this settlement. However, within the existing literature ‘social democratic austerity’ is currently under-theorised as it is assumed to involve a rather straightforward adaptation of social democrats to neo- and/or ordoliberal ideas. Utilising rich and original evidence from over 60 elite interviews with key social democratic stakeholders in France, Germany, and the UK, this article contests this view. It demonstrates instead that a distinct set of ideas based on New Keynesianism, supply-side economics, and the social investment paradigm provide the ideational foundations for social democratic austerity post-crisis. Understanding this, it is argued, is critical in order to fully appreciate how and why austerity has become dominant in post-crisis Europe.

**Keywords:** Economic Thought; Economic Crises; Political Economy; Political Parties; Constructivism; Europe

**JEL Classifications:** H60 National Budget, Deficit, and Debt: General; P16 Capitalist Systems: Political Economy; B220 History of Economic Thought: Macroeconomics

## **Introduction**

Following a short period of ‘emergency Keynesianism’ (Hall, 2013), the contemporary post-crisis macroeconomic settlement has been defined by fiscal austerity alongside monetary expansion. This dominance of austerity across the political mainstream in the context of the Great Recession has seen governments of all stripes across the continent, albeit in different contexts and to varying degrees, implement austerity – that is, measures to reduce public expenditure and increase tax revenue (Konzelmann, 2014:703). From a macroeconomic view, these policies made little sense in the post-crisis context (Matthijs and Blyth, 2017; Matthijs 2016; Blyth, 2013) and there is growing evidence that they made the crisis worse (e.g., Blanchard and Leigh, 2013, Heimberger, 2017). Still, support for what we call the ‘austerity settlement’ remains widespread amongst policymakers, and perhaps most surprisingly, even social democratic parties have largely acquiesced to this settlement (Anonymous, 2018), despite its negative political implications for such parties (Anonymous, 2017; Roberts, 2017).

There remains little understanding of the way in which social democratic actors (i.e. Europe’s traditional social democratic parties and politicians) have come to engage with, understand, and ultimately embrace austerity policies. The existing structuralist literature, which views post-crisis social democracy as a necessary and inevitable response to the material and institutional imperatives of the post-crisis conjuncture (e.g., Streeck, 2011; 2014; Bailey, 2014), cannot fully explain why social democrats have come to internally legitimise austerity. Instead, this article suggests, it is necessary to turn to insights provided by a constructivist literature attuned to the role that ideational factors play in shaping the political economy. The constructivist literature has, of course, already been well established in relation to austerity policies since 2010 (see Blyth, 2013; Dellepiane-Avellaneda, 2015; Ban, 2016, Carstensen and Matthijs, 2017, Matthijs and Blyth, 2017), but it offers us little in the way of understanding this issue other than to suggest social democrats have acquiesced to a set of

neo- and/or ordoliberal ideas. Within existing accounts austerity is generally discussed in the singular form, as a policy programme with its intellectual roots in either neoliberal or ordoliberal ideas, or a fusion of the two. As such, the literature often entangles different sets of ideas and masks some of the differential processes surrounding austerity's legitimation by social democratic actors.

However, recent literature demonstrates how policy issues such as austerity can mean different things to different actors, who draw upon and use different ideas to understand and legitimise their policy programmes (Ban, 2016), and that partisanship has a real impact when it comes to policy-making in areas such as welfare retrenchment and labour market reform (Finseraas and Vernby, 2011; Picot and Tassinari, 2017; Picot and Menéndez, 2017). In order to contribute to such debates, we draw upon a constructivist literature that shows the importance of economic ideas, including how they can be differently absorbed in different contexts (Ban, 2016; Matthijs 2011; Blyth 2002; Berman, 1998) and the role that they play in shaping crisis conceptions and policy responses (see Hay, 2016; Gamble, 2009; Widmaier et al., 2007; Blyth, 2002). The article builds on work from Haffert (2017) and Haffert and Mehrtens (2015) and argues that beyond neo- and ordoliberal liberal ideas, an alternative set of normative and economic ideas, based upon New Keynesian theory, supply-side economics, and the social investment paradigm – which we collectively call ‘supply-side Keynesianism’ – provides the intellectual framework for ‘social democratic austerity’.<sup>1</sup> This is more than an exercise in typology building or ideational hair-splitting; rather, we suggest that one can only fully understand the prevalence of austerity across the mainstream European political spectrum through acknowledging the *ideational foundations* of social democratic austerity, i.e. the ideas and economic theories on which it is built and legitimised.

To make this argument, the article draws upon qualitative evidence from three context-diverse case studies seen to represent different components of the European social democratic

spectrum, operating within three different economies: the French Socialist government (2012-17), Germany's SPD as a junior coalition partner (2005-2009/2013-17), and the British Labour Party in opposition (2010-15). Rather than focusing on the actual implementation of austerity measures in government, we contribute to the constructivist literature on austerity by using three cases with different governance contexts – single-party government, coalition government, and opposition – to determine a broadly 'social democratic' element of how these parties approached and have come to internally legitimise austerity to themselves. We compliment insights from over 60 semi-structured elite interviews with high-profile social democratic politicians and policy-makers in France, Germany, and the UK conducted between 2015 and 2018 with documentary analysis of a range of sources, including party programmes and speeches.<sup>2</sup> The article proceeds with an exploration of the existing literature on this issue, before a subsequent section constructs the ideational framework of social democratic austerity. This concept is developed through the presentation of the three cases, before a final section provides some concluding remarks about the implications of our research.

### **Conceptualising Social Democratic Austerity**

A prominent explanation for 'social democratic austerity' comes from a materialist literature focused on the structural imperatives of the global economy. Some contend, for instance, that the collapse of the Bretton Woods system and end of the post-War economic boom that accompanied the subsequent 1973 oil crisis has effectively killed off social democracy by ruling out traditional Keynesian policy tools (see Panitch and Leys 2001:107; Bailey 2009: 606; Rogers 2013: 8-9; Lavelle 2008). Others point to the rise of globalised capital markets in the 1980s – which were seen to empower footloose capital to punish inflationary economic policies – to explain the 'death' of social democracy (see Kurzer 1993). Wolfgang Streeck

(2011: 22-6; 2014) has more recently updated this thesis, arguing that the secular trends of stagnating economic growth, shrinking tax revenues, and rising public debt have made sovereign governments increasingly vulnerable to the whim of financial market actors, who can ‘impose strict austerity’ via the threat of capital flight. Relatedly, critical perspectives on European integration have explored the role of the European Union in institutionalising a ‘disciplinary neoliberalism’ (Gill 2003:65-67; see Bailey, 2009; Ryner 2012: 34), including through post-crisis developments such as the Fiscal Compact, which is seen to necessitate austerity (see Bailey, 2014: 245; Escalona and Viera 2014: 26).

These accounts point to significant challenges for social democratic parties, but they contain a number of limitations which must be recognised. First, we should be careful with statements concerning the death of domestic policy autonomy at the hands of global capital. For instance, the economic globalisation thesis of the 1990s and 2000s ignored ongoing differences in national economies (Garrett, 1998) and the way in which different economies could mediate the pressures associated with globalisation in order to pursue Keynesian policies (Clift and Tomlinson 2007). This reflects the way in which governments, such as the British Labour government of 1974-79, were able to pragmatically adjust to the monetarily constrained environment of post-Bretton Woods without sacrificing all elements of their Keynesian programme (see Hay 1999:209-12; Crook 2018). Moreover, the period of internationally coordinated Keynesianism in the immediate post-crisis period revealed the way in which expansionary macroeconomic policies, long regarded as ineffective or dangerous, were still very much an integral part of policymakers’ toolkits (Clift and Woll 2012:307).

Second, it is not evident that financial markets have ‘bit the hand that fed them’ and imposed austerity since 2008. In an otherwise toxic environment, post-crisis interest rates on government bonds have plummeted in many of Europe’s major economies, including the UK,

France, and Germany, as capital moved *to* these relative safe havens despite their high debt levels. As a result, governments in these countries have been able to borrow cheaply.

Moreover, in 2010, market actors came to perceive the fiscal position of some European governments as fragile only because the ECB's role as lender of last resort was not guaranteed (De Grauwe, 2011; Grauwe and Ji, 2013). They did not demand austerity *per se*, but rather a credible backstop that would safeguard their assets. When ECB President Mario Draghi provided this backstop in 2012, promising to do 'whatever it takes' to save the Euro, the financial pressure on Europe's periphery ceded but austerity continued. Austerity policies pursued thereafter have thus been more a political choice than an economic necessity.

Finally, EU integration is not sufficient to explain the austerity settlement, either. Even if the conditions of bailout agreements necessitated austerity in countries such as Greece, the same argument cannot be made in countries such as the UK, France, or Germany. For example, in 2010 the UK government committed itself to fiscal austerity programme on par with those of Portugal and Spain, despite not being institutionally constrained to do so. The UK has its own currency and central bank and it is not subject to Eurozone rules in the same way as other EU members are.<sup>3</sup> The extent of the austerity measures in the UK from 2010 can only be explained by the ideological disposition and political strategy of the Conservative-led Coalition government (see Gamble 2015). Therefore, we suggest that it is necessary to turn to insights provided by the constructivist literature, which is attuned to the role that ideational factors play in shaping the political economy.

The constructivist literature has already demonstrated the salience of how crises themselves come to be understood for the nature of the political struggle thereafter (see Hay 2016; Gamble 2009; Widmaier et al. 2007, Blyth 2002). The subjective and inter-subjective ideas held by actors about their environment are integral to the process of how these actors make

sense of the world around them and the nature of the crisis environment that confronts them (Hay 2016:525). Attendant to this, the role that ideas play in shaping particular policy outcomes has also already been well established in relation to austerity policies since 2010 (e.g., Blyth, 2013; Dellepiane-Avellaneda, 2015; Baker, 2015; Ban, 2016; Carstensen and Matthijs, 2017; Matthijs and Blyth, 2017). Many of these authors have demonstrated that the concept of austerity is underpinned by a range of normative and economic ideas about the appropriate role of the state vis-à-vis markets and households (see Blyth, 2013; Gamble, 2013). The choices that governments make when conducting fiscal adjustment – i.e. cut funding for public libraries or increase higher-rate income taxation – are the product of ideational legacies which shape our understandings of what is both appropriate and necessary (Schmidt, 2002:210).

In perhaps the best-known account of post-crisis austerity, Blyth (2013: see chapter 5) artfully traces a range of ideational developments on both sides of the Atlantic. For Blyth, German ordoliberalism has acted as the ‘basic design template’ for contemporary austerity, with these ideas flourishing upon their interaction with the neoliberal tenets of monetarism and public choice theory and, in the post-crisis period, the ‘expansionary fiscal consolidation’ thesis. Blyth’s valuable account demonstrates the way in which various political economic ideas come to be co-opted and repurposed over time and space. However, whilst Blyth (2013:133) makes us fully aware of different *historical* ‘variants’ of austerity, his account leads us toward a singular conception of post-crisis austerity as a ‘cocktail’ of ideas and (quite understandably) devotes less space to an interrogation of the way in which various political actors have utilised different ideas to legitimise their programmes internally since 2010.

The wider literature, on the other hand, tends to present the contemporary austerity settlement in Europe in as either ‘neat’ neoliberalism or ordoliberalism. Neoliberalism can be understood



as a ‘theory of political economic practices that proposes that human well-being can best be advanced by liberating individual entrepreneurial freedoms and skills within an institutional framework characterized by strong private property rights, free markets and free trade’ (Harvey 2005:2). Those who illustrate austerity’s neoliberal ideational roots demonstrate the importance of neoliberal economic ideas, including the ‘crowding out’ effect of government borrowing on both business and household spending (see Barro, 1974) and the ‘expansionary’ effect of fiscal consolidation (see Giavazzi and Pagano, 1990; Alesina and Ardagna, 1998), in shaping contemporary austerity (e.g., Peters, 2012; Mirowski, 2013; Schmidt and Thatcher, 2014; Dellepiane, 2015, Helgadóttir, 2016; Carstensen and Matthijs, 2017). On the other hand, other accounts uncover the powerful role played by ordoliberal liberal ideas in contemporary austerity. Little discussed in the pre-crisis period, ordoliberalism can be defined as a variant of liberalism which ‘asserts the authority of the state as the political master of the free economy’ (Bonefeld, 2013:641). In other words, contrary to neoliberalism, it argues that ‘full competition requires strong state authority to assure the orderly conduct of self-interested entrepreneurs’ (Bonefeld, 2013:638). Ordoliberal notions of ‘sound money’, a rule-based approach to economics and the ‘moral hazard’ associated with debt are often used to explain the austerity settlement in Europe’s post-crisis political economy (e.g., Young, 2014; Matthijs and McNamara, 2015; Nedergaard and Snaith, 2015; Woodruff, 2016). For instance, an ordoliberal rule-based approach to economics was essential part of the construction of the German debt brake in 2009 (Woodruff, 2016:98) and the European Fiscal Compact (Nedergaard and Snaith, 2015:1102).

That such ideas feed in to the post-crisis politics of austerity is not contested here (see Konzelmann, 2014 for an overview). Yet, there are two key and overlapping limitations within this literature. First, post-crisis austerity is almost always discussed in the singular form, with its intellectual roots in either neoliberal or ordoliberal ideas, or a fusion of the two. This

produces a confusion within the literature; like the proverbial blind men and the elephant, each component of the literature produces a distinct account of austerity whilst seeking to describe the same phenomenon. Rather than look to resolve this issue through narrowing our conception of austerity and dismissing the relevance of one set of ideas or another, it is more productive to accept that austerity can have various ideational foundations and mean different things to different actors.

In doing so, however, we are led to the second limitation of the existing literature: in focusing on neo- and/or ordoliberal ideas, such works potentially delimit our current understanding of how some influential political actors engage with austerity. Historically, social democratic parties were neither associated with neo- nor ordoliberalism. The ‘essential and enduring’ goals of social democracy, despite its numerous historical and geographical incarnations, have been to minimise ‘the cost of capitalism’ for the working classes through employment and welfare policies and tackle and reduce inequalities in power and wealth within the confines of a parliamentary democracy and market economy (Hirst, 1999: 87). Yet, as noted already, parties and governments of the left also supported fiscal consolidation policies prior to (Armingeon et al, 2016; Kraft, 2017) and during the crisis (see Anonymous, 2017; Anonymous, 2018). Unless our conception of social democratic austerity boils down to suggesting that such actors have merely accepted a neo- or ordoliberal economic outlook entirely, it is clear that social democratic austerity has hitherto been under-theorised. In other words, the literature fails to recognise the potentially differential internal legitimisation of post-crisis austerity policies among social democrats and in doing so misses out on understanding how and why austerity has become part of the mainstream European policy settlement. We contend that an alternative set of normative and economic ideas, based upon New Keynesian theory, supply-side economics, and the social investment paradigm underpins the way in which social democratic

actors have engaged with austerity. The following section seeks to develop this ideational framework.

### **Economic Ideas and the Left: Keynesianism, Supply-side Keynesianism and Austerity**

Following the Second World War, Keynesianism provided a strong intellectual basis for social democratic parties. It demonstrated how the interest of the working classes could be reconciled with a free market economy, by showing that private ownership of the means of production could be reconciled with the democratic management of the economy (Przeworski, 1985:207; also see Hall, 1989). Social democratic parties prospered as managed capitalism generated the economic growth and prosperity used to build the welfare state (e.g., Korpi, 1983). Yet, repeated economic crises and the occurrence of stagflation in the 1970s challenged the economic orthodoxy that combined Keynesian demand management and welfare state expansion with capitalism. In this period, European social democratic governments in the late 1970s and early 1980s, including the UK Labour government under Callaghan and Mitterrand's Socialist administration in France, stepped away from their Keynesian economic programmes and embraced deflationary policies. This economic and political environment provided space for monetarism and new classical economics, embraced by the conservative governments of Margaret Thatcher and Ronald Reagan, to become dominant, ushering in a new economic era that presented a major challenge to the centre-left (Hall, 1989; Blyth, 2002; Matthijs, 2011).

Beginning in the 1980s, however, economists such as Olivier Blanchard, Ben Bernanke, Greg Mankiw, and Paul Romer began to integrate Keynesian macroeconomic theory with the microeconomic models used by the neo-classical economists.<sup>4</sup> Although they accepted the core of the influential Lucas critique (1976) – conceding that economic agents are rational – they introduced nominal rigidities in their models, i.e. the idea that prices are staggered or sticky

and only adjust slowly or periodically (e.g., Taylor, 1979; Calvo, 1983). This fusion of the major macroeconomic schools of thoughts allowed New Keynesians to show that output gaps can exist in the short-run even when assuming that all economic agents are rational. Although output was efficient in the long-run, this provided a much-needed justification for policy-makers to stabilise the economy in the short-run.<sup>5</sup> Yet, given that the long-run equilibrium is unaffected by demand forces in the New Keynesian framework, it was necessary to turn to supply-side arguments which emphasise that growth is determined by supply-factors such as labour productivity and labour and product market institutions. While conservative supply-side economists in the US had originally used this idea to argue for lower taxes and less state intervention, left-leaning economists now argued that state investment in human and physical capital was crucial to determine long-run growth and increase productivity – claims formalised in Paul Romer’s (1994) work on endogenous or ‘new growth theory’. In combination, New Keynesianism and new growth theory – which we collectively call ‘supply-side Keynesianism’ – provided social democrats with a novel but powerful rationale for state intervention in order to improve market outcomes (see Scharpf 1991:270; Boix, 1998).

This marriage between the centre-left and supply-side Keynesianism was arguably very successful for Third Way social democrats in the late 1990s and 2000s, but it became difficult to sustain in the context of the Great Recession. After an initial period of emergency Keynesianism (Hall, 2013), social democrats followed the centre-right and turned to austerity (Anonymous, 2018; Anonymous, 2017). Why, then, did supply-side Keynesianism help to legitimise austerity amongst social democratic actors in the post-crisis era? In the short-term, New Keynesians believe that during crisis periods government spending is necessary to sustain demand due to nominal rigidities, which prevent the economy from operating close to its potential. However, there are three important caveats central to supply-side Keynesianism which are important for understand social democratic austerity.

First, New Keynesianism reduced the importance of the output gap compared to Keynes' theory. Originally, Keynes argued that supply is stable while demand fluctuates, which leads to output gaps. He argued against classical economists, who believed that swings in output were caused by external shocks to the economy based on Say's famous dictum that supply creates its own demand. The synthesis on which New Keynesianism was based combined both arguments: output gaps still exist in the short-run, but the potential or efficient output varies in response to shocks. It can move upward and downward and does not grow continuously. Importantly, New Keynesians accepted that there was a so-called 'non-accelerating inflation rate of unemployment' (NAIRU), as introduced by Tobin (1980), i.e. there was a level of unemployment that is consistent with a stable rate of inflation. Thus, in response to an economic shock, governments should use macroeconomic policy to close the output gap, but only up to the point at which the economy is operating at its new potential. Beyond this point, expansionary policies only create inflation and therefore New Keynesians generally prescribe a smaller stimulus than Keynes' original theory would suggest.

Second, according to New Keynesianism the government's role in the stabilisation of the economy is limited (Iversen and Soskice, 2006:437). Monetary policy governs demand management because an independent central bank can avoid the time-inconsistency problem, which Kyland and Prescott (1977) identified. Moreover, monetary policy is more effective than fiscal policy in the New Keynesian model because the output gap in the short-run is usually the result of an inter-temporal mismatch between demand and supply. Assuming that the interest rate is effectively the relevant price that affects the inter-temporal allocation of demand, monetary policy can quickly and directly affect demand in response to an economic crisis. In contrast, fiscal policy affects demand more slowly and less directly. There is usually a lag in the implementation and effectiveness of fiscal policy and, as long as the economy is not in a liquidity trap, it is less effective than monetary policy in stabilising the economy. As a result,

there was a shift to monetary dominance in advanced economies (e.g., McNamara, 2002) and demand management became depoliticised (Iversen and Soskice, 2006).

Third, supply-side Keynesians believe that the state has a fundamental role in generating long-run growth in an economy, by investing in human and physical capital and by providing public goods that markets do not deliver. This argument was most forcefully made by proponents of the social investment paradigm (see Morel et al., 2012; Hemerijck, 2017), who strongly influenced the centre-left parties in the early 2000s during the Third Way era. For some social democratic parties, including New Labour, the social investment paradigm promoted a shift away from the traditional social democratic goal of equality towards a focus on ensuring equality of opportunity (see Blair, 1998:3). Based on a supply-side perspective, the social investment paradigm emphasized that against the background of large structural transformations, including globalization, deindustrialisation, and technological change, there were “new social risks” (Bonoli, 2007) that traditional welfare states did not address. Aimed at creating human capital, for example through active labour market policies, public childcare provision, or education, social investment was supposed to both modernise the welfare state and contribute to economic growth (Morel et al., 2012).

Yet, for the state to play this role it needs to retain the capacity to act in the long-run. This presents policy-makers with an important inter-temporal trade-off: as the government stimulates the economy and incurs more debt in the short run, the cost of servicing this debt in the long-run also increases. This is problematic for two reasons: first, it places a higher burden on future tax-payers and raises concerns of inter-generational equity; second, it has the potential to limit the capacity of the state to act in the long-run as governments have to use a large share of their budget to pay for interest rate payments and, increasingly, become dependent on financial markets to re-finance their debt. Fiscal policies thus need to be concerned with the sustainability of public finances, which leads to what Haffert and Mehrtens

(2015) call the ‘progressive consolidation thesis.’ According to this view ‘consolidation is not an end in itself but a means to regain fiscal capacity’ (Haffert and Mehrtens, 2015:120f).

In response to an economic shock like the Great Recession, then, these tenets of supply-side Keynesianism had the potential to play a central role in legitimising austerity on the social democratic left and, by extension, contributing to the broad implementation of austerity policies in Europe since 2010. That is not to suggest that social democrats have never previously employed austerity policies, nor that there is no overlap between these ideas and neo- and ordoliberalism. However, the core tenets of supply-side Keynesianism outlined above are distinct and were significant to social democrats in the post-crisis in particular. Neoliberalism implies that state intervention in the economy is costly and should not be concerned with correcting for inequalities, while social democrats argue that the state needs to intervene in the economy. They share this support for state intervention with ordoliberals, but these two schools of thought are set apart by the type of state intervention that they prescribe. Social democrats have a more positive vision of the state, which, in their view, has a fundamental role to play in generating long-run growth. This also allows social democrats to combine supply-side Keynesianism with an ideational framework that champions equality and the welfare-state, as long as it contributes to innovation and the long-run accumulation of human capital – an innovation of ‘new growth theory’ not present in earlier instances of deflationary social democratic policies in the 1970s and early 1980s.

Although social democratic parties may have had difficulty reconciling redistribution with austerity in reality, the framework of supply-side Keynesianism sketched out above provides the ideational foundation for doing so. In the next section, we use three case studies to trace how this happened in the context of the Great Recession. To this end, we are less interested in the actual implementation of post-crisis austerity; instead, we focus on the ideational processes that contributed to the construction and internal legitimisation of social democratic austerity.

## **Austerity and the Centre-Left in France, Germany and the UK**

### *France's Socialist Administration*

Against the backdrop of the ongoing financial crisis and crisis in the Eurozone, as well as heightened fiscal austerity across Europe since 2010, François Hollande was elected as only the second Socialist President of the French Fifth Republic in May 2012. In the years leading up to Hollande's election, France's macroeconomic environment worsened, although not as significantly as elsewhere in Europe. The general government deficit shot up from 2.5 per cent of GDP to 4.8 per cent in 2012, while government debt rose each year from 43.5 per cent of GDP in 2007 to 85.3 per cent in 2012. In this context France lost its 'AAA' rating with Standard and Poors' in January 2012 under Hollande's predecessor, Nicolas Sarkozy. Hollande utilised this environment to argue that the 'painful' austerity programme of the Sarkozy administration, and France's European neighbours, was failing and to promote himself as an 'anti-austerity' candidate who could bring about '*le changement*' (Hollande, 2012a). At the same time, however, the Socialist's sought to underline their commitment to redressing France's public finances. Hollande's manifesto ambitiously pledged to cut the deficit to 3 per cent of GDP by 2013 to meet Maastricht targets, whilst balancing the budget and reducing debt back to around 80 per cent by 2017 (Hollande, 2012b:40), a 'herculean' 7 per cent structural adjustment between 2012 and 2017 (Clift and Ryner, 2014:147). In power, the Socialist administration sought to demonstrate how seriously it would take the weighty task of reducing France's debt and deficit burden, which was presented as a necessary condition of economic success (Hollande, 2012c; Moscovici, 2012a).

Such ambitious fiscal consolidation plans were seemingly at odds with Hollande's anti-austerity rhetoric. Yet, they were legitimised internally through an ideational distinction



between, on the one hand, *austérité*, and, on the other hand, the government's programme of *désendettement* (deleveraging). Pierre Moscovici, Minister of the Economy and Finances in 2012, presented the government's *désendettement* as a technical programme of 'serious' public finance management. In contrast, 'austerity', he argued, was an ideological imposition of 'strict financial orthodoxy' which 'in a single movement crushes consumption, employment, and investment' (Moscovici, 2012b). Furthermore, the Socialist administration's fiscal strategy consistently promoted the need to 'maintain public demand in the short term' (Moscovici, 2012a). Moscovici argued early on that the government was looking to support household consumption – 'the historical engine of the economy and growth in our country' – through a variety of measures including boosting the minimum wage and repealing a VAT increase (Moscovici, 2012a). The government simultaneously spoke of its desire to provide the impetus for an industrial renaissance in France, to provide the backbone of a new jobs-rich post-crisis growth strategy (Hollande, 2012b:7-8; Le gouvernement français, 2014).

Despite this, it is clear that there was always a much more limited perception of the government's ability to deliver growth through a demand-led programme compared to Keynes' original theory amongst Hollande and his economic advisors. For instance, France has had a persistent output gap of between -1.4 and -2.1 per cent of potential GDP between 2012 and 2017 (OECD, 2017). Despite this, a 2014 book written on France's economic model by three economic advisors to Hollande argues that increased demand stimulus will only lead to a more damaging debt burden, and that the only strategy available was long-term supply-side investments in education and training, as well as labour market reform (Aghion et al. 2014: see Chapter Two). This was reflected in Hollande's campaign pledge to put education 'at the heart of public action' through increased investment – a theme which persisted throughout his presidency (see Hollande 2012b:25).

The initial emphasis placed upon household consumption as the engine of French growth, moreover, quickly eroded as Hollande failed in his attempts to engineer greater fiscal capacity for France through the renegotiation of a number of European-level agreements, including the new European Fiscal Compact and the development of a Eurobonds scheme (see Anonymous, 2017). Whilst Hollande promised new spending commitments worth €20 billion over the course of the parliament, all new spending was to be financed by savings and Hollande's campaign manifesto forecast a decline in public spending as a percentage of GDP between 2012 and 2017 (Hollande, 2012b:41). Any ambitions of industrial renewal were severely hampered by a meagre investment programme, worth one-third of the €35 billion pledged for industry by Sarkozy in 2009 (Levy, 2017:620).

In the context of Hollande's failure to achieve reform at the EU level, the Socialist's economic programme was left 'empty' and as such the government moved quickly to commission and embrace a report by Louis Gallois on France's economic growth model (PS economic advisor A, personal interview, 17/06/2016). The Gallois report pushed a new supply-side focused policy regime of labour market liberalisation and tax credits for businesses, designed to boost French firms' cost competitiveness, which was from this point on promoted by the Socialist government as the key driver of French growth (see Moscovici, 2013; Valls, 2014). Indeed, Hollande raised eyebrows in January 2014 when launching a new package of liberalising reforms by explicitly referencing Say's Law, claiming that 'supply creates demand' (Hollande, 2014). Furthermore, although initially pushing a more demand-oriented argument at the European level, Hollande came to embrace the potential positive effects of monetary stimulus in the form of the ECB's QE programme. In January 2015, the French President was seen to 'jump the gun' by telling journalists that the ECB would begin QE, which he suggested would act to provide 'significant liquidity to the European economy and create a movement that is favourable to growth' (Hollande cited in Horobin, 2015). In the place of demand management,

supply-side labour market reform and loose monetary arrangements, alongside fiscal consolidation, were thus seen as more effective strategies for growth.

There is, furthermore, clear evidence to support the final elements of the social democratic austerity framework, the state's key role in delivering equality through redistribution and social investment, as well as Haffert and Mehrtens' progressive consolidation thesis. The Socialist's task, Hollande argued, was not to refuse the need for engaging in fiscal consolidation, but to 'give meaning' to an austerity programme through making more socially just choices (Hollande cited in Écoiffier et al., 2011). This was premised upon, on the one hand, distinguishing 'fairer' redistributive measures, including restoring the progressivity of taxation, which had been 'undermined in the previous five years' (Moscovici, 2012a; Hollande, 2012b). A number of Socialist parliamentarians and party officials drew comparison with the cuts delivered by the Coalition government in the UK and argued that their programme did not represent 'austerity' because, on average, wages were protected and the social security system was not seriously cut back (Henri Weber, personal interview, 21/06/2016; Alain Bergounioux, personal interview, 21/06/2016). On the other hand, although the concept of 'social investment' is not widely used by French policymakers, such ideas underpinned Hollande's promise to focus on youth employment and make education '*une grande cause nationale*' (Hollande 2012a). The Socialist administration was also keen to rectify past issues with investment in education and training in France in order to better emulate the success of social investment programmes in Germany and the Scandinavian economies (PS economic advisor B, personal interview, 10/05/2016). As Elie Cohen, a former economic advisor to Hollande put it, the Socialist agenda was to mobilise all the budgetary techniques available in order to meet the government's deficit targets, without committing itself to an 'austerity' programme (Elie Cohen, personal interview, 23/06/2016).

The Socialists utilised ideas relating to the progressive consolidation thesis on numerous occasions to conceptualise their engagement with austerity and relate it to their own ideals as

social democrats. From the beginning of Hollande's presidency, the Socialist administration was at pains to frame its fiscal consolidation strategy in terms of its progressive potential. As Moscovici put it in July 2012, redressing France's public finances was 'not an end in itself ... it is an indispensable way to preserve our sovereignty, to maintain the control of our public policies.' Austerity measures were not incompatible with reformist policy, but rather fiscal consolidation 'enables us to restore a capacity to act' (Moscovici, 2012b). Indeed, a theme running through the entire period was that the consolidation of France's public finances was a necessary move in order to restore France's 'sovereignty' in the face of its international creditors, who could inflict economic pain on the country if it deviated from this path (see Moscovici, 2012b; Sapin, 2015). This argument was, in turn, utilised to suggest that the pursuit of deficit reduction was 'indispensable in order to ensure the durability of our social model' (Sapin, 2014b). The parlous state of the French public finances and pressure from the EU were manifestly the key economic and institutional pressures on the Socialist administration. Yet, in order to understand austerity in France under Hollande, it is necessary to recognise that social democrats in France drew upon a set of cognitive New Keynesian and supply-side ideas to deliver fiscal adjustment in accordance with a set of deeply held normative ideas around the role the French state could and should play in delivering growth and protecting equality.

### *Germany's SPD in Grand Coalition*

The SPD was the junior partner in a grand coalition under the leadership of Angela Merkel in 2008, when the financial crisis struck. In response to this crisis, the SPD was at first reluctant to use the full possibilities of the state to stimulate the economy (Vail, 2014; Schulze-Cleven and Weishaupt, 2015). Together with its coalition partner, it bailed out the German banks that were most threatened by the crisis and eventually the SPD also supported two stimulus packages in Germany. Still, the period of emergency Keynesianism was short-lived. Rather, as did the French Socialists, the party sought to demonstrate its commitment to fiscal

consolidation. In the context of elevated public debt, under the leadership of SPD finance minister Peer Steinbrück, the grand coalition changed the German constitution in spring 2009 to introduce a ‘debt brake’ (*Schuldenbremse*), which became the blue-print for the European Fiscal Compact introduced in 2012. Following this, the SPD supported the European bailouts and rescue packages that imposed austerity on the crisis-ridden debtor countries even though it was in opposition from 2009 to 2013. Moreover, when the party entered another grand coalition under the leadership of Merkel, it continued to support fiscal consolidation. When finance minister Wolfgang Schäuble balanced the budget beginning in 2014 (achieving the so-called *Schwarze Null* or ‘black zero’), leading social democrats also hailed this as a historic success (see below).

The SPD’s support for the austerity settlement was internally legitimised by several tenets of supply-side Keynesianism (also see Anonymous, 2018). As with the French Socialists, there were clear limitations to the SPD’s faith in the growth potential of demand-management, which had been largely abandoned by the party following Oskar Lafontaine’s departure from government in 1999 (SPD economic advisor A, personal interview, 15/03/2018). Although the SPD supported the fiscal stimulus in 2008 and 2009, these packages did not mark a return to a more comprehensive form of demand management. Initially, the SPD finance minister Peer Steinbrück even criticised the ‘crass Keynesianism’ of stimulus programmes in the UK and elsewhere (Theil, 2008) and, as one economic advisor (SPD economic advisor B, personal interview, 31/01/2018) reported, ‘there was a clear anti-Keynesian attitude in the finance ministry.’ Due to the size of the economic shock, the SPD ultimately supported two stimulus programmes, but – in line with New Keynesian ideas – the SPD leadership believed that the demand stimulus should only be a short-term remedy to the crisis (economic advisor C, personal interview, 15/12/2017). Furthermore, it did not only justify the stimulus by the

necessity to stimulate domestic demand, but it argued that the government had to intervene in order to ensure the long-term productivity of the economy (e.g., SPD, 2009).

As a result, the SPD quickly moved away from calls for further demand stimulus as the German output gap narrowed over time and the economy returned to growth again in 2010. Especially since German unemployment remained relatively low during the crisis, there was a feeling that additional fiscal stimulus was not needed to support the recovery (Christian Kellermann, personal interview, 18/12/2017). Instead, as Germany emerged from the recession more quickly than most other European countries, Germany's liberal supply-side reforms from the early 2000s were increasingly seen as the reason for Germany recovery. The so-called *Agenda 2010* was implemented by SPD chancellor Gerhard Schröder and many people from his era were still in positions of influence within the party. Therefore, according to a leading SPD politician, the 'party leadership struggled to shift from the *Agenda 2010* towards a demand-oriented policy' (Ralf Stegner, personal interview, 19/12/2018) and the perceived success of these reforms entrenched the notion that the economic crisis in Europe should be addressed by structural reforms and supply-side policies rather than by traditional Keynesian demand-management. The party's leadership still believed that 'structural problems and downturns in the economic cycle need to be addressed with government spending, but we cannot spend for spending's sake.' (Johannes Kahrs, personal interview, 16/08/2018).<sup>6</sup> The SPD thus abandoned Keynes' view that any form of demand stimulus is better than no stimulus.<sup>7</sup>

At the same time, influenced by the long-standing German tradition of a strong and independent central bank, leading SPD politicians held an even stronger conviction than the French Socialists through the crisis period that macroeconomic policy should be left to monetary policy (Gustav Horn, personal interview, 14/11/2017). The SPD leadership never questioned the independence of the ECB and was relatively quiet when other political actors in Germany started to criticise the expansive monetary policy of the ECB. It understood that monetary

policy measures were necessary and also contributed significantly to the stabilization of Europe (economic advisor C, personal interview, 15/12/2017). For example, Carsten Schneider (2017) argued that ‘we Germans know very well that the independence of monetary policy is a great asset that must be protected: protected against external attacks and political influence...’ Despite the SPD’s support for a European growth and employment pact, the party was not convinced that there was a need to shift from monetary dominance towards a macroeconomic policy mix and remained unwilling to embrace a large European-wide fiscal effort.

As with the Socialist administration’s focus on French ‘sovereignty’, the strongest argument for fiscal consolidation within the SPD was based on the notion that consolidating government debt ‘is a step towards a viable state’ and an ‘activating state’ – an argument made within SPD circles since the early 2000s (Schneider and Asmussen, 2002). This position became more important throughout the crisis as leading politicians from the right-wing of the party – the so-called *Seeheimer Kreis* – pushed the progressive consolidation thesis. For example, Carsten Schneider (personal interview, 22/10/2016) argued that ‘higher debt generally also means that the government has to pay more interest. And I do not want to use the government’s current income for spending on interest.’ This viewpoint also resonated with some people from the left-wing of the party and found support among the party leadership. For example, Joachim Poß (personal interview, 22.09.2016), a long-term budgetary spokesperson for the SPD, argued that ‘there are good reasons that the state gives itself room for manoeuvre: the lower the debt, the higher the ability to act.’ The SPD (2009) justified its support for the debt brake in similar terms, arguing in the middle of the recession in January 2009 that ‘rising interest rate payments are a serious mortgage for our children and grandchildren.’ Steinbrück even called the introduction of the *Schuldenbremse* a ‘decision of historic significance’ (Deutscher Bundestag, 2009:24866), arguing that Germany was stuck in a ‘vice of indebtedness’ and that ‘a state that is able to act needs to have public finances that are viable in the long-term’ (Deutscher

Bundestag, 2009:24868). In 2014, the SPD then used similar arguments with respect to the policy of the *Schwarze Null*. For example, the new leader of the parliamentary party Thomas Oppermann argued in 2014 in the *Bundestag* that ‘only a state that has financial leeway can invest, shape and redistribute’ (Deutscher Bundestag, 2014:4567).

This was also connected with an argument about generational justice, which was pervasive because it allowed SPD politicians to embrace fiscal consolidation on its own terms. For example, Kahrs (personal interview, 16/08/2016) argued, ‘higher debts are a burden on future generations, and it is not fair, from the point of view of generational justice, that we burden future generations with debts that take away all room for manoeuvre.’ Therefore, when confronted with arguments about the lack of investment in Germany, the SPD also struggled to define a clear policy. Like the British Labour party, a large part of the SPD had endorsed the Third Way in the early 2000s, accepting that the welfare state should become a social investment state. In the wake of the crisis, the party thus tried to push for more investment – both in human and physical capital. Higher investment in education and childcare was seen as a key to increase the productivity of the economy and Sigmar Gabriel, then party leader and economics minister, actively promoted this policy.<sup>8</sup> Constrained by the coalition partner, however, the SPD was reluctant to call for large increase in government spending; rather, it maintained that the lack of investment could largely be addressed by facilitating private investment and not by public spending. For example, Oppermann argued that ‘we do not need any debt-financed short-term flash in the pan programs for the economy, but strategies for more private investments’ (Oppermann, 2014). Influenced by the Euro crisis, which created an environment where the public consensus against government spending and debt was extremely strong (e.g., Thorsten Schäfer-Gümbel, personal interview, 13/12/2017), the SPD denounced government debt and remained wedded to supply-side Keynesianism, thus believing that public spending would not be the cure to the German investment gap.<sup>9</sup>



### *The British Labour Party in Opposition*

As the financial crisis hit the UK, Gordon Brown's New Labour government sought to bail out the country's banking sector, whilst tax revenues shrunk and counter-cyclical adjustment mechanisms kicked in as unemployment grew. As a result, the government deficit shot up from 2.8 per cent to 10 per cent of GDP and public debt increased massively from 35.5 per cent to 64.9 per cent of GDP within two years between 2008 and 2010. It was in this context that from May 2010 the newly elected Conservative-Liberal Democrat Coalition government was able to effectively construe the crisis in the UK as the product of the Labour government's fiscal profligacy in office and present its austerity programme as the appropriate policy response (Gamble, 2015; Hay, 2013). This proved to be an extremely effective tactic, creating a strong perception amongst voters that the Coalition government's austerity measures were largely 'Labour's fault'.

This environment helps to explain why under Ed Miliband, who became party leader in September 2010, Labour never openly described itself as an anti-austerity party. Instead, under Shadow Chancellor Ed Balls, the party initially stuck to the argument that the government's fiscal consolidation programme went 'too far, too fast'. From 2013, however, half-way through the parliamentary term, Labour shifted further towards a fiscal consolidation programme. Going into the 2015 election, the party's headline measure on fiscal consolidation was that, if elected, it would balance the current budget and get public debt falling 'as soon as possible' in the next parliament (Labour Party, 2015:1). Labour planned to match Conservative spending plans for 2015-16 and pledged to not reverse key spending cuts. As a senior Labour party economic advisor (personal interview, 03/12/2015) confirmed, these policies were designed purposefully to be 'specific on individual policies' to match the Tories' toughness on consolidation, whilst being 'deliberately [...] hazy about the overall envelope' in order to ensure the party retained fiscal room to manoeuvre in government.

This ambiguity, however, leaves it difficult to say precisely what Labour's fiscal consolidation plans would have been if they had been elected. Labour's stated fiscal targets were compatible with a slower and more 'progressive' path to consolidation compared to that of the Conservative-led administration, by both dampening the impact of spending cuts and increasing the weight of progressive taxation measures (Crawford et al., 2015). A social democratic concern to ensure that its programme for fiscal consolidation was more just than that of the government's was central to this. As the party's 2015 manifesto stated, Labour's plan was 'to balance the books means making tough, but *fairer* choices' (Labour Party, 2015:1).

Nevertheless, as one economic advisor suggests, the leadership felt that there were 'arguments to be made about pace and fairness, but not about the economic fact that some cuts/tax rises needed to happen' (Labour Party economic advisor, personal interview, 09/11/2015). As in both France and Germany, deficit reduction remained a priority for the party throughout the parliament. Ed Balls, for example, consistently spoke of the party's 'iron discipline' on spending choices (e.g., Balls 2013, 2014a). Miliband and Balls both shared a Keynesian outlook (Torsten Bell, personal interview, 13/12/2016), but concerned with Labour's already weak economic credibility with the electorate, Miliband had 'serious political problems with Labour being an anti-austerity party' (Marc Stears, personal interview, 17/02/2016).

The party's fiscal stance was not, however, merely the product of electoral concerns. Rather, there was a real concern that rapid deficit reduction was a necessary pursuit because the UK's weak macroeconomic position made it liable to further damage if a new exogenous shock was to hit the economy (Labour Party economic advisor, personal interview, 03/12/2015). Irrespective of a hypothesised new economic shock, moreover, policy-makers believed that the deficit was simply too high and needed to be brought down as, from 2013, the economy had started to grow again (e.g., Nick Pearce, personal interview, 03/12/2016; Labour Party economic advisor, personal interview, 03/12/2015). This adjustment had to be achieved via

austerity measures because, in their opinion, there was no stimulus available that would yield a significant enough multiplier effect to bring down the deficit by itself (Labour Party economic advisor, personal interview, 03/12/2015). Underlying this position was a more restricted conception of the output gap and the new potential of the UK economy (Rachel Reeves, personal interview, 7/12/2016), consistent with the New Keynesian theoretical framework and what has been documented in the cases of France and Germany. Indeed, Balls (2012) sought to explicitly differentiate the theoretical underpinning of his arguments from those he called ‘naïve Keynesians’,<sup>10</sup> and in retrospect, he explained his thinking in the following way:

By 2013, I had to plan on my inheritance not being an economy below trend but an economy, which was on par with a diminished trend. In those circumstances, I could not be in fiscal denial...it was becoming clear that there would have to be some form of fiscal consolidation because there was absolutely a structural deficit, not only a cyclical deficit. (Ed Balls, personal interview, 12/12/2016)

The superiority of monetary policy over fiscal policy in managing the economy also plays a role in this story. As an influential economic adviser to Gordon Brown in the 1990s, Balls was the leading voice in pushing New Labour’s decision to grant independence to the Bank of England. This was an attempt to bolster New Labour’s credibility with financial markets (Keegan, 2004:153), but it also reflected New Keynesian ideas that an independent, technocratic central bank could most effectively respond to economic crises (Carstensen and Matthijs, 2017, Matthijs, 2011:140-177). Of course, following the financial crisis, the Bank of England also implemented a massive QE programme from March 2009 onwards. This programme acted as an ‘insurance policy for the Conservatives’ (Robert Skidelsky, personal interview, 24/04/2017) and, as Neil Kinnock (personal interview, 6/12/2016) argued ‘only the Tory back-bench was more surprised than Labour that there was no the double-dip recession [after Osborne implemented austerity].’ In this context, a debate came up within the Labour

Shadow Cabinet over whether QE should run through the financial system (by making it easier for banks to lend) or whether a more direct fiscal or investment-led stimulus was required (John Denham, personal interview, 21/04/2017). Ultimately, however, under Miliband's leadership, this debate never gained traction within the party and the dominance of monetary policy was not questioned. The party leadership supported additional investment spending (see below), but there was also a feeling among the Labour leadership that there was a lack of shovel-ready projects, which could quickly support growth and produce a counter-cyclical fiscal policy effect.

Alongside this, there is also evidence of Haffert and Mehrtens' progressive consolidation thesis. Led by New Labour politicians and activist, the argument that fiscal conservatism and social justice go hand-in-hand gained traction during the parliamentary term.<sup>11</sup> Very similar to the Socialist administration in France, this type of argument underpinned what Balls came to term, 'fiscal responsibility in the national interest' (e.g., Balls, 2014b). It meant committing to policies such as devoting all windfall gains from the sale of bank shares to repay the national debt burden and holding a 'zero-based review' of spending, 'examining every pound spent by government to cut out waste and make different choices' (Balls, 2014a). Underlying this approach was the issue of the size of UK's public debt and the country's debt interest payments. Miliband (2014) famously forgot to mention this issue in his 2014 Party Conference speech, but the missing section read: 'There won't be money to spend after the next election. Britain will be spending £75 billion on the interest on our debt alone. That's more than the entire budget for our schools.' Consistent with supply-side Keynesianism, the concept of fiscal responsibility in the national interest, thus, linked the decision to pursue debt with the promise of renewed fiscal capacity to pursue progressive ends in the future.

Part and parcel of Labour's approach was to differentiate itself from Conservative plans for consolidation by demonstrating how it could once again enable the state to act in the interests

of growth and prosperity. This is reflected in, for example, Labour's plans for extra capital investment. There was a general agreement within the leadership that Labour could not tie its hands too much with respect to investment spending (Marc Stears, personal interview, 09/11/2016). Therefore, going into the election 2015, Labour ruled out extra borrowing for current (day-to-day) spending, but it still allowed for borrowing for capital (investment) spending. These calls for more capital spending were also strongly influenced by the social investment paradigm. One advisor to Miliband, for instance, spoke of how the party attempted to 'own' the issue of economic growth through contrasting a right-wing focus on deficit reduction with their own programme for growth 'rooted in education and investment' (Morris 2015). Therefore, Labour gave itself some fiscal leeway, but as in the French or German cases, these arguments were mostly based on supply-side ideas around improving productivity and not straightforward demand management.

## **Conclusion**

In the context of the Great Recession, austerity has retained a tight grip on Europe. Beginning with the bailout of Greece in May 2010, the austerity settlement has come to define Europe's post-crisis political economy. The acceptance and implementation of austerity by social democratic parties has been a critical component in its mainstreaming and widespread implementation across Europe, but its ideational foundations remain poorly understood. As we have argued above, structuralist accounts are unable to explain the austerity settlement whilst the existing constructivist literature has largely conceptualised post-crisis austerity in the singular form, as the product of neo- or ordoliberal ideas. In this article, we have drawn upon rich qualitative evidence from three case studies to argue instead that a distinct set of economic ideas, based on New Keynesianism, supply-side economics, and the social investment

paradigm influenced social democratic parties in France, Germany, and the UK, contributing to their support for austerity measures in the context of the Great Recession.

In particular, we argued that supply-side Keynesianism contains three key tenets of significance to understand this: a reduced importance of the output gap compared to Keynes' original theory; a prioritisation of monetary over fiscal policy; and a focus on utilising the state to generate long-run growth and more equitable outcomes, alongside a belief that the state's fiscal capacity must be protected to ensure this, the so-called progressive consolidation thesis (Haffert and Mehrrens, 2015). To a certain extent, of course, these ideas may overlap with neo- and ordoliberalism. Moreover, it is clear from the case studies above that the central tenets of supply-side Keynesianism have been drawn upon and utilised in subtly different ways by social democrats depending upon their specific national and economic contexts and policy legacies. However, as the three case studies illustrated, together they provide for a distinct ideational foundation which has shaped the way in which social democratic actors engaged with austerity post-crisis.

Manifestly, this does not mean social democratic austerity will always look the same in practice – indeed, a cursory glance at the headline figures would suggest that the French Socialists in government pursued taxation of income and wealth over spending cuts to a greater degree than a Labour government in the UK might have. Future research in this area will hopefully be able to provide a systematic comparison of the way in which different political families in Europe have implemented austerity. Such a comparison is, however, not what has been attempted in this article. Rather, we have sought to illuminate the ideational foundations upon which a broad range of social democratic actors, operating in different political and economic contexts across Western Europe's post-crisis environment, have internally legitimised austerity.

The importance of our analysis extends beyond mere typology building. Although we have not had space to consider it, it seems clear that this article's findings have implications for the current electoral crisis faced by social democratic parties. In the post-crisis era, such parties have not found a convincing narrative on austerity to legitimise austerity among the electorate, unlike the centre-right or, indeed, the post-War Labour government in the UK, which implemented austerity and simultaneously built the British welfare state. Unwilling to support 'old' Keynesian policies, contemporary social democratic parties were trapped by their economic ideas and failed to lead the opposition against the current macroeconomic regime (Blyth and Matthijs 2017), while acknowledging that the political and economic consequences of this regime are wholly unsatisfactory. This predicament has contributed to deepest electoral slump that the social democratic movement in Europe has experienced since the Second World War and created space for populist political forces to emerge on both the left, including the Syriza, Podemos, and Jeremy Corbyn within the British Labour Party, and the far right.

More generally, the article contributes to a constructivist literature which highlights the importance of how differential ideational processes serve to legitimise policies among different actors (Ban 2016). It emphasises that austerity has become such a powerful idea because it has been used by different actors for different political purposes, endowing it as a policy with enormous political force. Until today, support for the austerity settlement remains widespread and this ideological dominance of austerity in Europe, it has been argued, can only be understood with reference to differential ideational processes that serve to legitimise austerity among different political actors.

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## Endnotes:

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<sup>1</sup> Of course, various distributional decisions are also necessarily made concerning how to implement austerity. However, our focus in this article is on the ideational foundations which have led to the legitimization of austerity measures amongst social democrats, not the implementation of these measures and their composition per se.

<sup>2</sup> All interviews are listed in appendix A, which also includes the rationale for selecting the interviewees.

<sup>3</sup> For example, it also opted out of the new European Fiscal Compact in 2012.

<sup>4</sup> For an overview of New Keynesianism, see Woodford (2009) or Blanchard (2000).

<sup>5</sup> The New Keynesian model is also formalised by the three-equation model as set out by Carlin and Soskice (2006).

<sup>6</sup> Philipp Steinberg, an influential economic advisor to the SPD leadership, noted that the SPD does not support ‘vulgar’ Keynesianism, but ‘the SPD is concerned about both demand- and supply-side instruments.’ According to him, ‘Sigmar Gabriel always said that “God has given people two arms and not just one”, and the SPD wants to use both arms’ (SPD economic advisor C, personal interview, 22/11/2017).

<sup>7</sup> For example, this sentiment was expressed by the economic spokesman Carsten Schneider (personal interview, 20/10/2016), who argued that ‘the SPD does not want to build lighthouses that do not have light.’

<sup>8</sup> For example, in 2014 Sigmar Gabriel formed the Fratzscher Commission, led by the President of the German Economic Research Institute (DIW) Marcel Fratzscher, to devise policies to increase investment.

<sup>9</sup> In this sense the SPD was also influenced by public discourse in Germany, which was dominated by ordoliberal positions during the Eurozone crisis. However, several interviewees argued strongly that the vast majority of SPD politicians and policy-makers are not close to ordoliberalism (e.g., Schäfer-Gümbel, personal interview, 13/12/2017; Stegner, personal interview, 19/12/2017; economic advisor C, 18/08/2016).

<sup>10</sup> According to Balls (2012), naïve Keynesians ‘think it is always a special case – time to let rip and just “tax, spend, and borrow” in the hope that will deliver full employment’.

<sup>11</sup> This was best expressed in a discussion paper titled “In the Black Labour” published in 2011 by the Policy Network think tank from the party’s right wing (Cooke et al., 2011)