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From the "planning euphoria" to the "bitter economic truth": The transmission of economic ideas into German labour market policies in the 1960s and 2000s

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From the ‘planning euphoria’ to the ‘bitter economic truth’.

The Transmission of economic ideas into German Labour Market Policies in the
1960s and 2000s

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Abstract

This paper compares the interconnections between dominant economic thought and processes of policy-making in the area of labour market reforms in Germany in the late 1960s and the early 2000s. The transition in labour market policies in this period could be described as a change from an active to an activating approach. At the level of economic discourse these policy changes correspond to a paradigm shift from Keynesian to neoclassical/neoliberal economic thought. We investigated these changes by focussing on two distinct reforms of labour market policies and carried out a critical discourse analysis of the relevant public and academic discourse of economists. We find that the paradigm shift in economic thought was accompanied by a shift in economists' discourses on labour market policy issues.

Keywords: critical discourse analysis, political power of economic ideas, labour market policy reforms, economic expert discourse

JEL categories: A11, B21, B22, B52, J53, J41, J88

1 Economic foundations of labour market policy reforms and the role of economists¹

The field of labour market policy (LMP) is a highly contested issue because it directly addresses the power relations between labour and capital. Therefore, it is often in the centre of political and ideological debates. Although the reduction of unemployment rates can be seen as a common concern of labour market researchers there are stark controversies about the right measure to obtain this aim. Hence, whereas Rinne and Zimmermann (2013, 702) argue with respect to current LMP reforms that Germany partly due to its ‘rigid, incentive-oriented labour policy’ can be seen as the ‘north star of labour market policy’, Dörre (2011, PAGE), also referring to these reforms, denotes the increase of precarious work as ‘the ugly side’ of ‘the German ‘employment miracle’.

This quite opposite evaluation of LMP reforms can be ascribed, at least in part, to contrasting perceptions and interpretations of the labour market rooted in different economic paradigms. Our main aim in this paper is, thus, to analyse, to quote the title of a famous book by Peter A. Hall (1989), ‘the political power of economic ideas’ in the specific context of LMP reforms. More precisely, we investigate the roles played by economic terms, concepts and theories and economic experts, respectively, in the transformation of LMP by addressing the following research questions: How should we conceptualise the relationship between paradigm shifts in economic ideas and policy changes in specific policy fields? Which typical arguments on LMP reforms were put forward by economic experts in public media and academic discourses, respectively? And how significant, therefore, was the influence of economic thought on such reforms in the 1960s and the 2000s?

The term ‘economic expert’ in the context of this paper is referring to a rather broad meaning of academic economists as multiple actors in the interconnected worlds of academia, media, politics and business, equipped with the symbolic capital of being an ‘economist’. Hence, even in media discourses the insignias of symbolic capital, for instance the designation ‘Professor of economics’,² confers power on academic economists and therefore increases the discursive impact of their problem construction and problem solution. Maesse (2015, 7) introduced the concept of a ‘discursive political economy of economics’, claiming that ‘economic knowledge from economics has a special status as a cultural resource for discursive interventions into the political and the economic world’. Economists’ discourses are therefore understood as a trans-epistemic field, where economists obtain a leading

¹ We thank Jakob Kapeller and the participants of the Inaugural Conference on Cultural Political Economy in Lancaster in summer 2015 for helpful comments. This work was supported by funds of the Oesterreichische Nationalbank (Anniversary Fund) under Grant number 15727.

² This is also true for politicians, who were professors of economics like for instance Schiller, Erhard or Schellenbach prior to their political career.

position as universal experts or even ‘public intellectuals’ (Goodwin 2014; Hubbard 2004; Mata/Medema 2013) in the process of the transmission of economic knowledge into public (economic) policy discourses. During the last decades economics has improved its position among the social sciences, particularly in the field of policy advice. Hence, the role of economists and the reference to economic knowledge is crucial for the understanding of power balances in politico-economic discourses in capitalist societies. Lebaron (2001, 128) therefore stresses: “The reference to economics is essential to the understanding of a specific kind of legitimization, because science is the last resource in a political attempt to ‘depoliticize’ politics.”

In our comparative analysis of two reforms of LMP in the late 1960s and the early 2000s in Germany we therefore particularly concentrate on economic expert discourses which refer to these policies. The two reforms are closely related to two distinct approaches to LMP and can therefore be considered landmark reforms regarding the implementation of *active* and *activating* LMPs in Germany, respectively. Even though such reforms, on the one hand, are of general significance in many OECD countries (e.g. Weishaupt 2011), there are, on the other hand, important differences between individual nation states. In this context Germany with its conservative-corporatist tradition is of particular interest because here, at least from an institutional point of view, neither the implementation of the ‘social democratic’ reforms in the 1960s nor the implementation of the ‘(neo-)liberal’ reforms in the 2000s seemed to be very likely. Accordingly, as two proponents of this approach laconically put it, reforms like the ones we are analyzing in this paper ‘should not have happened’ (Hassel/Schiller 2010, 9). In research regarding the question why these reforms did ‘happen’ anyway the impact of ideas, knowledge and discourses is gaining importance (e.g. Patzwaldt 2008; Griesser 2012; Pautz 2012). However, even though more and more authors conceive discursive changes as ‘key factors to understand the recent developments in LMP’ (Seeleib-Kaiser/Fleckenstein 2007, 443), very little is known about the impact of economic expert discourses on these developments. For that reason, we propose to interpret the transformation of LMP against the backdrop of a paradigm shift in economic thought from Keynesian to neoclassical/neoliberal economics (e.g. Backhouse 1994; Jones 2012; Palley 2005).

The main contribution of this paper therefore rests in the multi-level comparative analysis and critique of LMP reforms, taking into account the mutual dependency of a paradigm shift in economic thought and changes in a specific policy field. The remainder of the paper is structured as follows. We start by outlining the methodological framework of the paper (section 2) and introduce the empirical case studies of LMP reforms (section 3). Here, the policy processes associated with the two reforms from the 1960s and 2000s, respectively, are reconstructed in order to analyse influencing factors. In section 4 we then present a critical discourse analysis of the interpretive frames underlying these policy changes. For this purpose we focus on two aspects, namely on economists’ media discourses and on

their academic discourses related to the reforms. Finally, in section 5 we draw conclusions regarding the changing role of economic thought in the process of policy-making.

2 Methodological Approach

In the field of policy studies, a wide variety of interpretive or post-positivist approaches have been elaborated on in recent years (e.g. Fischer/Gottweis 2012). Their core idea is that social phenomena and developments are constructed or mediated by ideas, knowledge or discourse. Hence, as Fischer/Forester (1993, 6) put it, (political) ‘problem solution depends on the prior work of problem construction [...], and this work is deeply rhetorical and interpretive’. Building on this argument, we consider the policy change associated with the transition from *active* to *activating* LMPs to be based on, or guided by, discursive changes (e.g. Hajer 2006; Schmidt 2011).

Therefore, the basic analytical approach employed in this paper is based on the methodological framework of critical discourse analysis (CDA) (e.g. Fairclough 1992, 1997; Wodak 2013). CDA is a socio-linguistic approach that focuses on the use of language in combination with social and cultural hegemonic processes. Discourses are thus understood as complexes of statements and discursive practices of actors that generate hierarchical systems of knowledge and form the perception and interpretation of social reality (e.g. Van Dijk 2006; Van Dijk 2008).

The analysis of specific discursive events must therefore be accompanied by an analysis of, amongst other things, changing institutional settings and politico-economic processes including power relations of specific actors. As Fairclough and Wodak (1997, 258) pointed out prominently in their attempt to develop a CDA approach, ‘describing discourse as social practice implies a dialectical relationship between a particular discursive event and the situation(s), institution(s) and social structure(s) which frame it. A dialectical relationship is a two-way relationship: the discursive event is shaped by situations, institutions and social structures, but also shapes them.’ Over the last years CDA has developed into a multifarious research programme³ with several identifiable ‘schools’.

By referring to such a broad understanding of CDA, we are not only analysing the patterns of discourse related to the policy-making process, but also its politico-economic and institutional context. In so doing, we attempt to contribute to the debate on the role of CDA in critical policy studies (e.g. Jessop 2010, 340; Fairclough 2013; Schmidt 2011, 114).

The text corpus used for the research presented here consists of two subsets of economists’ discourses in order to refer to the multiple roles of economists as

³ Cf. the wide range of aspects and methodological approaches in the four-volume book of Wodak (2013)

academics and ‘public intellectuals’, respectively. For the corpus selection we proceeded as follows: For the analysis of economists’ media discourses we employed a corpus-based CDA approach as suggested by Baker et al. (2008) and Mulderrig (2011). Therefore we selected media articles with a standardised catchword-retrieval from the electronic archives of *Der Spiegel* and *Die ZEIT* from 1966 to 1969 and from 2002 to 2005. We have chosen these two media because they are conceived to be influential, opinion-forming weekly newspapers that were active over the two analysed time periods. Due to weekly publication they are supposed to have greater distance from day-to-day political events, and hence both claim that this allows for more thoroughness than the daily press (Goethe Institut 2016). Furthermore, as both media were founded immediately after WWII (*Die ZEIT* 1946 and *Der Spiegel* 1947) they had a formative influence on the German medial landscape. For the composition of our sample we used the keywords ‘*Ökonom’, ‘*Volkswirt’, ‘*Wirtschaftswissenschaftler’ (three commonly used German terms for ‘economist’ and economic experts) in combination with ‘Sozialpolitik’ and ‘Wirtschaftspolitik’ (social policy and economic policy). This procedure ensures that only people labelled as experts in the field of economics in public – no matter how high their reputation in the scientific community – join the sample. We used the terms ‘social’ and ‘economic’ policy because the debate on LMP is often framed in broader debates on social and economic policies. Further the use of the term ‘labour market policy’ would only present a small subset of the media discourse on this issue. We then focused our analysis on relevant texts, where ‘economists’ elaborated on their arguments on LMP and the role of economists in this field. This final corpus for our media analysis of economists’ discourse on LMP consists of 210 pages with about 75,000 words of discourse fragments from economic experts.

The second part of our CDA is based on a corpus of economists’ academic discourses. This corpus comprises discussions and debates at annual meetings of the German Economic Association (‘Verein für Socialpolitik’, GEA) and in particular the meetings of the ‘Committee on Social Policy’ of the GEA. (Sanmann 1970; Schmähl 2003). The GEA was founded in 1873 and is one of the oldest and largest (today about 4,000 members) associations of economists (and partly also other social scientists) worldwide. The Committee for Social Policy was reconstituted in 1968. Main topics of the committee’s conferences in the first years included ‘Social Security’, ‘Motives and Goals of Social Policy’ and ‘Problems of the Labour Market’. Hence, we concluded that discussions in this committee can be used as good indicators of the economic expert discourse on social and labour market policies at that time. In contrast to the media debate, where the institutional academic status of speakers is not relevant as long as they are labelled as ‘economists’, membership in the GEA and in its today 23 committees is a sign of reputation in the scientific community of economics in general (over 60% of the GEA members are full university professors) and particularly of reputation in a specific subfield in economics. The high reputation of the GEA is furthermore ensured by a rather rigorous admission procedure (e.g. Verein für Socialpolitik 2013).

3 Empirical Case Studies

In the field of LMP between the 1960s and the 2000s a far-reaching transition took place. This transition has been described as a policy change from an *active* to an *activating* approach (e.g. Weishaupt 2011). Both models have been promoted as guiding principles by international organisations such as the Organisation for Economic Co-operation and Development (OECD). However, whereas the former was embedded in a macroeconomic policy framework inspired by Keynesianism, the latter was ‘disembedded’ in macroeconomic terms due to the dominance of neoliberalism.

Nonetheless, with respect to the landmark reforms regarding the implementation of an *active* and an *activating* LMP in Germany, things appear to be more complicated. While scholars like Schmid and Oschmiansky (2006, 338) conceive the *Labour Promotion Act* of 1969 as an ‘accompanying measure of fine-tuning’, e.g. in the context of Keynesian concepts of macroeconomic management, others are questioning whether this reform, despite rhetorical references, was conceptually even based on Keynesianism (e.g. Altmann 2004, 82). Likewise, the *Fourth Law for Modern Services in the Labour Market* of 2005 is labelled as ‘neoliberal’ by many scholars (e.g. Butterwegge 2005, 223) while others are denying this label, arguing that ‘the diagnosis of a “neoliberal” change of direction is based on a narrow conception of liberalism’ (Schmidt 2007, 296).

Against this background, our paper further investigates the economic discourse associated with *active* and *activating* LMPs. In order to understand whether and how these distinct approaches to LMP are related to different ‘schools of economic thought’, we refer to the concept of an ‘economic imaginary’ as developed by Bob Jessop (2010, 344). With respect to this concept, Keynesianism is associated with an ‘economic imaginary’ characterised by the need for active economic management in the light of the ‘planning euphoria’ of the 1960s (e.g. in the German context the concept of macroeconomic management or ‘Globalsteuerung’). Neoclassical neoliberalism in the 2000s however strictly opposes active policy measures in favour of the ‘economic imaginary’ of a self-regulating market mechanism. Furthermore, the former promoted demand-oriented policy measures in order to achieve the primary aim of full employment, while the latter focuses mainly on the supply side of national economies with the primary goal of a balanced budget. Against this backdrop we present in this section the two labour market reforms in Germany with the aim of reconstructing the general framework and highlighting influencing factors. We start with the *Labour Promotion Act* of 1969 and proceed with the *Fourth Law for Modern Services in the Labour Market* of 2005.

3.1 *The Labour Promotion Act (Arbeitsförderungsgesetz, AFG) of 1969*

In 1966/67, an economic downturn in Germany resulted in rising unemployment rates. In response to the crisis, a grand coalition of Christian Democrats (CDU) and Social Democrats (SPD) was formed. Two years later in 1969 the Minister of Labour and Social Affairs, Hans Katzer (CDU), launched the *Labour Promotion Act* (AFG) (Altmann 2004). The AFG introduced an *active* LMP in order to fight unemployment, labour shortages and so-called 'inferior employment' in a more preventive and flexible way. Therefore, as Katzer described it in the final parliamentary debate regarding the AFG in 1969, 'the modern labour market and employment policy has to complement an active and countercyclical economic policy in a meaningful and useful way' (BT-Minutes 1969, 12936).

For this purpose, in addition to the traditional (passive) means of LMP (unemployment benefits, job placement), a wide range of (active) measures was introduced. These active measures primarily sought to improve the (e.g. regional or occupational) mobility of labour power (e.g. Kühl 1982). Already in the first parliamentary debate regarding the AFG in 1967, Katzer accordingly declared the following:

'Structural changes brought about by economic and technical developments [...] imposed high and tough requirements on the working people. To an increasing degree employees have to be professionally and mentally mobile and, hence, adaptable in economic life. [...] The promotion of the mobility of labour, thus, is the core mission which is addressed by the draft of the Labour Promotion Act.' (BT-Minutes 1967, 7401)

3.2 *The Fourth Law for Modern Services in the Labour Market (Hartz IV) of 2005*

In 2001/02, an economic downturn led to a further increase in the already high unemployment rates in Germany. In response to the crisis, the governing coalition of the Social Democratic Party (SPD) and the Green Party initiated a far-reaching policy change towards 'Third Way'-neoliberalism (Butterwegge 2005, 159ff.). In this context the 'Modern Services in the Labour Market' expert commission chaired by Peter Hartz, human resource manager of the German Volkswagen Group, was established in February 2002. After the elections in 2002, the proposals of the commission were implemented by four bills ('Hartz I' to 'Hartz IV') (Hassel/Schiller 2010). According to the Minister of Economic Affairs and Labour, Wolfgang Clement (SPD), the structural reforms intended by these bills aimed essentially at 'liberating the innovative forces inherent in competition and personal initiative' (BT-Minutes 2003b, 5105).

Especially the last of these bills, the new 'Basic Provision for Jobseekers', which was established by the Hartz IV legislation in 2005, marked the final breakthrough of an *activating* LMP in Germany, as indicated by its guiding principle of 'Help and Hassle' ('Fördern und Fordern'). Hence, its primary aim was to strengthen 'personal responsibility' and promote 'economic independency' in order to ensure a rapid reintegration of the unemployed into the labour market by a combination of

incentives and disincentives with a strong focus on restrictive measures (e.g. Mohr 2007, 198ff.). In the final parliamentary debate regarding Hartz IV, Clement therefore declared the following: ‘According to the principle of “Help and Hassle” we have to expect job seekers not to refuse a job offer. For the purpose to bring them back to work [...] we create incentives. On the other hand, the principle must be: Anyone who rejects a reasonable offer of employment can’t expect public assistance’ (BT-Minutes 2003a, 5738).

4 Labour market policies in academic and public discourses of economists

In this section, in order to highlight the changing role of economic thought in the processes associated with our examples of LMP reforms, we focus on two levels of economists’ discourses. First we analyse the academic discourse, and second we analyse the media discourse on social and economic policy reforms in the 1960s and the 2000s. In so doing, we aim to show how economic expertise is developed and in what specific contexts and in which specific roles economists enter the public discourse.

4.1 *Economists’ discourse on LMP in the 1960s*

In the 1950s and 1960s, often referred to as ‘the golden age of economic advice’ or even the ‘hour of economists’ (Nützenadel 2005), many German economists and political actors shared a strong belief in the possibility of social and economic steering or planning (Steuerung). Mayntz (2016, 259) remarks that ‘in the late 1960s a veritable planning euphoria developed’. As a consequence of this ‘planning euphoria’, the majority of economists, ranging from most Keynesians to interventionist ordo-liberals, supported the theory of rational economic policy (Mayntz 2016; Wagner 2003). Hence, the title of the 1966 annual conference of the GEA and the published proceedings thereof was ‘Rational economic policy and planning in the economy today’⁴ (Schneider 1967).

Against this backdrop, the foundation of the German Council of Economic Experts (GCEE) in 1965 and its close collaboration with the German government were understood as a milestone of more rational economic policies. Focussing on the central role of the then Minister of Economic Affairs, Karl Schiller, Giersch et al. (1992) pointed out: ‘The honeymoon of policy counselling might not have been possible without the receptiveness on the side of policy-makers. In particular, Karl Schiller [...] was ready to engage in a long-standing constructive dialogue with the Council of Economic Experts.’

The analysed volume for the discourse analysis of the 1960 entitled ‘On the problem of social investments’ comprises eight articles and comments. It is telling

⁴ All quotations and titles were translated by the authors.

that two of the contributions were authored by representatives of the social partners which indicates their strong position and the mode of cooperation between political practitioners and economic advisors in times of rational economic policy. Following our CDA approach we identified three patterns of discourse in economists' academic debates on social policies.

First, the authors sought to define the goals and specific characteristics of social policy in contrast to those of other policies. Especially Nell-Breuning, a proponent of Catholic social teaching and a founding member of the Scientific Advisory Board of the German Ministry of Economic Affairs, connected social policy measures and particularly social investment (i.e. active policy measures in the area of health, welfare or education) to the Economic Stability and Growth Act (Stability Compact) of 1967. Although the main goal of social policy is to provide social security to all members of society, Widmaier, Nell-Breuning, and Winterstein stressed the need for institutional reforms (at the macrolevel) in the case of systemic imperfections of social order. In this context, the problem of defining the normative goal of social policy arises. Nell-Breuning (1970) suggested that the basic right of human dignity laid down in the German 'Grundgesetz' (constitution) could be used to determine the scope of social policy measures. In a society that is potentially able to provide all its members with basic security, 'the threat to one's subsistence induced by unemployment [...] is a form of discrimination too close to human dignity' to be acceptable (Nell-Breuning 1970, 62). Widmaier (1970, 12) similarly rejected sole focus on passive social policy measures and argued for an 'active and future-oriented social policy'.

The second pattern of discourse addresses the question of how to decide on normative goals and the role of economics in this process. Generally, the authors of the analysed volume agreed that ultimate societal ends must be defined in a political process where economic reasoning plays a minor role. They argued that there should be task-sharing between economic thought and policy-making. Referring to cost benefit analyses as core parts of rational economic policy measures, Kullmer (1970, 92) stated that 'it must be clear that cost benefit analysis can never make political decisions'. Similarly, Widmaier (1970, 44) and Marx (1970, 55) claimed that advances in economic theory and economic modelling facilitate better or more rational economic policy advice, but at the same time they agreed that both politics and economic policy advice serve societal progress. The dominant discourse among economists on social progress is reflected in their reasoning in favour of active social policy. Widmaier, for instance, stated that active social policy is (from a distributional and democratic perspective) normatively preferable to passive measures because, by reducing elitist consequences of capitalism, it serves the ultimate goals of social equality and democratization of the society.

The third core pattern of discourse is characterized by an implicit optimism about planning and policy advice. As indicated above, Widmaier (1970, 33) assumed that the common effort of politics and a more rational economic policy advice would lead to a 'better' society. Generally, economists' academic debates on social policy

measures and social investments in the future are characterized by the idea that mid- or even long-term planning, referring positively to the Stability Compact as a milestone of rational economic policy in the international context, offers the possibility of enhancing social progress.

Following our methodological approach we also identified three dominant patterns of discourse on the level of economists' media debates: The first of these patterns of economic experts discourses on LMP reforms was the support of *active* LMPs. Against the background of the first economic downturn in 1966/67 after two decades of economic growth, euphemistically termed as 'the German economic miracle', the threat of unemployment reappeared in debate. Gleitze and Brenner, economists at the union-linked economic research institute WSI, as well as CDU economic advisors, such as Andreae and Nell-Breuning, considered unemployment a big threat to social cohesion. Therefore, fighting unemployment was seen as an ultimate goal. Karl Schiller, then Minister for Economic Affairs, for instance, stressed: "We cannot accept unemployment at any level. We have to bear the NPD in mind" (Schiller 1967).⁵ Based on the Keynesian-oriented 'magic polygon' of economic policy consisting of a set of distinct economic goals such as high employment, external balance, growth, just distribution of wealth, and price stability, many economists and also the newly founded GCEE demanded interventionist measures to achieve full employment.

The second pattern of discourse of economists in the politico-economic debate concerned the wage bargaining process of trade unions and employers' associations as well as the debate on the distribution of income and wealth after decades of economic prosperity. It can be shown that the majority of economists argued for a more just distribution of wealth and income. On the one hand, this was a consequence of the strong position of trade unions in the debate and in the institutional setting of Schiller's political programme of a 'concerted action'.⁶ On the other hand, the dominance of Keynesian or even pronounced left-wing economists in the debate on just distribution of profits reflected a power balance among economists to the disadvantage of neoliberal or neoclassical economic thought, although this observation only applies to a relatively short period of 'German Keynesianism' (Hagemann 2008). In the progressive environment of the late 1960s (see, e.g., the German student movement), many economists demanded a redistribution of wealth and supported this idea with several studies on the uneven distribution of wealth and property in Germany. Ortlieb (1966) for instance stated that the German market economy acted in a 'socially disintegrative' way and hence favoured the selfish over the altruistic type. Zeitel (1969) accused the German income tax system of offering 'privileges to employers and property owners while taxing workers disproportionately highly'. Krelle (1969) even predicted the rise of an 'inoperable group of rentiers, similar to the aristocracy and

⁵ All quotations were translated by the authors.

⁶ The aim of establishing a 'concerted action', following the advice of the GCEE, was to offer the most important economic interest groups a forum for discussing core issues of economic policy.

clergy under the *ancien régime*'. Against this background, Schellenberg, then chairman of the Bundestag Committee on Social Policy stressed the importance of the distributive mechanism of the German welfare state: 'The confidence of the citizens in social security is a central part of the confidence in democracy' (Schellenberg 1967). Although there was broad agreement amongst the majority of economists on interventionist policy measures, several economists as early as the 1960s criticized the expansion of the German welfare state as a 'total welfare state' or an 'anti-individualistic ideology of a paternalistic state' (Mann 1966).

The third pattern of economists' discourses addressed the challenges for economic policy advice, more specifically the relation between economic theory and economic policy. In this context the increasing importance of mathematical and statistical methods was seen ambivalently. Kade (1969), for instance, criticized that economics 'has become an instrument for stabilizing power that hides behind seemingly objective mathematical formalism'. Nonetheless, there was a strong overall belief in the idea that economic policy could be planned on the basis of economic expertise in order to enable stable economic growth. Hence, Krelle stated that his greatest wish was a higher degree of rationality in politico-economic decisions, and Gleitze (1967) even predicted that 'with the second third of the 20th century the liberal ideal of an unplanned economic policy will come to an end'.

Summing up, the era of Keynesian-oriented policy-making ('Hydraulic Keynesianism') was characterized by the conviction that economics had the societal function of supplying rational expertise to politicians. Nevertheless, economics should at the same time keep out of the process of policy-making itself, which also indicates the influence of the ordoliberal distinction between (necessary) regulatory politics ("Ordnungspolitik") and (harmful) process politics ("Prozesspolitik") (Eucken 1952).

4.2 *Economists' discourse on LMP in the 2000s*

The analysis of economists' academic discourses in our second example of the early 2000s is based on the volume 'Social security and labour market' edited by Schmähl (2003), and is a collection of ten contributions and comments from the 2001 annual conference of the Committee on Social Policy of the GEA. In the early 2000s Germany faced an economic down-turn, resulting in a further increase in the already high unemployment rates in Germany. In European politico-economic debates Germany due to its high unemployment and low growth rates thus was called the "sick man of Europe" (e.g. Dustman et al. 2014).

Unlike the 1960s publications, the contributions in this volume are characterised by the application of micro-econometric or simulation approaches, reflecting the international trend of mathematisation in economics from the 1970s onwards (e.g. Blaug 2003). G. G. Wagner (2003, 49) pointed out the importance of evaluations of labour market policies based on statistical methods and simulation models in order to prevent a 'blind flight in social and labour market policy'. Similarly, Kleinhenz

(2003) argued for the use of micro-econometric modelling, although he was aware that the sole focus on 'economic efficiency' in labour market policies could have problematic consequences. Compared to the 1960s, when statistical methods were mainly used for the analysis of macroeconomic data on a macro-level, the economists' debate in the 2000s was based on the New Keynesian Macroeconomic (NKM) consensus of the necessity of a micro-foundation of macroeconomics. Hence, the starting point for NKM models is always the individual (representative) household and the analysis and evaluation of its individual decisions.⁷

Concerning the core question of unemployment, the authors largely agreed that the social security system, with its high social insurance contribution rates and its wage levels defined through collective bargaining, was to be held responsible especially for the modest employment rates of low-skilled workers. Therefore, Steiner (2003), Riphahn (2003) and G.G. Wagner (2003) argued in favour of far-reaching reforms of the German labour market policy and the welfare system in general.

Similarly, Riphahn argued that in a functioning market the growing unemployment of low-skilled workers would induce a price adjustment of labour costs. However, as rigidities exist in the form of minimum wages and strong bargaining positions of the trade unions that prevent this adjustment process, she came to the conclusion that unemployment is caused by a lack of wage flexibility. Referring positively to the higher wage inequality in the US, Steiner (2003) and Riphahn (2003) concluded that a greater wage spread between low- and high-skilled workers had positive labour market effects. Whereas for the former group, assuming a high labour-demand elasticity, a policy of reducing minimum wages and social insurance contribution would have an immediate positive effect on employment, for the latter group there would be stronger incentives to 'invest in their human capital'. Hence, the economists' discourses on unemployment of low-skilled workers and/or low-wage earners were characterized by the neoclassical assumption of voluntary unemployment.

In this context, the authors referred to a negative image of unemployed workers, and on this basis stressed the importance of restoring the 'Lohnabstandsgebot', i.e. the principle that benefits should be far below the going wage in order to prevent worker inactivity (a contemporary version of the 'less eligibility' principle). This negative image manifests in the functionalist use of the label 'human capital', which reduces workers to their 'market value' in a capitalist system. In this context, G.G. Wagner (2003, 47) argued that the group of long-term unemployed was particularly problematic because, on the one hand, they would face a 'strong depreciation of their human capital' and, on the other hand, their employment status would lead to a 'withdrawal of the "imperatives" of the daily working routine'.

⁷ Particularly the concept of microeconomic foundation of macroeconomics was heavily criticized yet since the early 1990s by New-Keynesian (Blanchard, 1992) and Post-Keynesian (Lavoie, 2004) economists for its narrow assumptions of a representative household.

In addition to the pejorative perception of low-skilled unemployed and/or low-wage earners, the authors blamed the German welfare state and the social partners of being insufficiently flexible to meet the requirements of the globalised economy. Based on the negative and pejorative image of the welfare benefits recipients and the alleged inability of the German welfare state to deal with structural problems at the beginning of the 2000s, the economists' discourses paved the way for major social and labour market policy reforms in the following years, culminating in the Hartz IV reform.

In economists' media discourses of the 2000s we identified the following main patterns of discourse, which mark a stark contrast to the ones we found in the 1960s: First, many prominent economists presented themselves as preachers explaining the 'bitter truth' to politicians and the public. Horst Siebert (2005), president of the Kiel Institute for the World Economy and member of the GCEE, complained that the GCEE, 'like Sisyphus', repeatedly highlighted severe problems of the German welfare state, but 'the willingness to listen' was 'very low'. Hence, warning and explaining the economic necessities to politicians seemed like a never-ending task to economists. Therefore, particularly in the 2000s several economists reported a decline of influence of academic economics. (Franz 2000; Frey 2000) Similarly, Kistler and Rürup stated that the German social system was 'at its end'. Miegel agreed and stressed that the 'most urgent objective (is) fully explaining the present situation (the severe crisis of the German pension system, remark by the authors) to the German people' (Miegel 2005). The discourse on 'urgent economic necessities', excessively slow political processes and insufficiently ambitious economic policy reforms was also reflected in the academic discourse of economists on the proper role of policy advisors and policy advice. Several economists interpreted the observed 'resistance to advice' ('Beratungsresistenz') of politicians as empirical proof of the negative image of politicians represented in public-choice-theory. Hence, 'good' and 'successful' economic policy advisors would have to move from policy advice and political consulting to a strategy of 'citizen advice'. 'Enlightened citizens' would then in turn support more rational economic policy. Neoliberal think tank projects such as the INSM (Initiative for New Social Market Economy), founded in 2000 and heavily supported by German employers' associations, can be interpreted against this background as initial tests of such a new orientation for ordo-liberal and neoliberal economists. A good example of this re-orientation was provided by Bernd Raffelhüschen (2005), 'ambassador of the INSM', who referred positively to the INSM, as it gave him an opportunity to be heard by much more people than he could have reached as a professor of economics.

The second pattern of media discourse of economic experts on questions of LMP reforms revolved around high unemployment rates, especially amongst low-skilled workers. In principle, the majority of economists welcomed and still support the Hartz IV reforms (Frey et al. 2007). Rürup (2002), for instance, concluded in summer 2002 that the suggestions of Peter Hartz such as the promotion of self-employed

entrepreneurship was ‘one of the most interesting and most intelligent suggestions in recent years’ for ‘breaking up rigid structures’ (*verkrustete Strukturen*) in the German labour market. Alongside coining the phrase ‘rigid structures’ in the German labour market, economists repeatedly claimed about an overall lack of flexibility both of institutions and of the unemployed themselves. Whereas in the former case mainly the trade unions were at the centre of criticism, in the latter case the personalization of the responsibility for being unemployed went hand in hand with the paradigm shift from *active* to *activating* LMPs. In this context, the argumentation for ‘personal responsibility’ and ‘flexibility’ served to contrast the image of a ‘modern, dynamic’ market-oriented welfare state with that of the ‘static and inflexible’ welfare state dominated by social partners and egotistical politicians. The GCEE (2002) for instance, urged that the ‘flexibility of the labour market had to be increased’. Against this background, trade unions were labelled as ‘brakemen’ (*Bremser*) or the last, alongside French communists, ‘who still support vulgar Keynesian slogans’ (Streeck 2003).

On the one hand, this reflects a strong dominance of neoliberal economic thinking among German economists. On the other hand, it becomes obvious that, in contrast to the 1960s, when many economists shared an optimistic vision of social progress and an inclusive welfare state, in the 2000s discourse economists warned repeatedly of the severe economic consequences of ill-advised policies. In their self-proclaimed task of telling the ‘bitter truth’, many economists not only provided policy advice, but also tried to convince the public that trusting the current welfare system would be very risky and ‘irrational’ in the long term.

4.3 Economists’ discourse on labour market policies in the 1960s and 2000s compared

The comparison of economists’ academic debates on LMP reforms reflects differences that can only partly be explained with reference to different politico-economic framework conditions concerning productivity growth rates and the level of unemployment. In contrast, we identified a strong impact of the paradigmatic structure of German economics on the process of problem construction and problem solution in the academic discourse of economists. Whereas in the 1960s German economics particularly in the field of economic policy advice can be characterised by a dominant position of pragmatic Keynesian and rather interventionist ordoliberal economists, in the 2000s the neoclassical paradigm served as academic basis for the proclamation of neoliberal reform agendas (e.g. Heise / Thieme 2016; Ötsch et al. 2017).

Hence, the discourse of the 1960s is mainly on general goals of social policy measures and the social responsibility of the academic discipline of economics in the common effort of increasing the public good together with politics. In contrast, in the discourse of the 2000s LMPs are almost exclusively discussed in the context of their economic consequences. Similarly, the existence and the level as well as the causes of unemployment are interpreted in accordance with the neoclassical

partial market model and therefore policy advices in this field focus on economic incentive structures.

Furthermore, the concept of rational economic policy is widely discussed among economic experts in the 1960s and the 2000s, and most scholars positively refer to the potential of new economic methods. Nevertheless, whereas in the discourse of the 1960s it was argued that the application of new economic methodologies should accompany the process of policy-making, in the 2000s many scholars claimed that economic modelling could and should be used to highlight irrational or economic inefficient LMPs. In this context the application of micro-econometric tools in allegedly value-free neoclassical partial labour market models is used to explain unemployment and the absence of a low-wage sector as consequences of rigidities in the labour market or unjustifiable wage expectations.

The comparison of dominant patterns in economists' media discourses also showed significant differences regarding the process of problem construction and problem solution. In the 1960s many economists stressed the possibility and necessity of (macroeconomic) 'planning' (e.g. the Keynesian-oriented concept of 'Globalsteuerung') based on rational economic policies and implemented in a common effort with politics in order to overcome the current crisis. Against this background the great majority of economists supported *active* LMP measures and also argued for a more equal and 'just' distribution of income. While in the 1960s most of them shared an optimistic image of the relationship of expertise and democratic representation the economists' discourses in the 2000s are characterised by a negative image of politics. Many economists perceived themselves as preachers of the alleged 'bitter economic truth', i.e. the necessity of a fundamental and radical structural reform of German LMPs and the welfare state in general. As a consequence of the criticised 'advice-resistance' of German politicians and a pejorative image of 'the unemployed' a majority of economists therefore supported *activating* LMP measures.

5 Conclusion

The change from an *active* to an *activating* LMP was accompanied by far-reaching changes in media and the academic discourses of economists. In this paper we asked for the relationship between these developments, that is to say, between policy changes in a specific field and paradigm shifts in economic ideas. Instead of conceptualising this relationship as one of direct involvement (e.g. of Keynesian economists in the implementation of *active* LMPs in the 1960s), we proposed a more complex and abstract interpretation of 'influence'.

Regarding this overarching research issue we found patterns of discourse in economists' media and academic debates which played a key-role in the justification and legitimization of the respective approach to LMP. To be concrete, in academic as well as in media discourses, *active* LMPs found their common ground

in Keynesian paradigms whereas *activating* LMPs were ultimately grounded in neo-classical paradigms. Nonetheless, in academic discourses the focus is on academic reasoning, and therefore normative political arguments can only be deduced from theoretical assumptions. In the media discourse, on the contrary, economists actively engage in normative debates on LMP reforms and use their scientific reputation as economic experts to reach a broader audience. Furthermore, our focus on dominant discourses should not obscure the fact that the different patterns were questioned and fought in multiple ways by alternative discourses. Hence, their status is always a fragile and contested one.

Nevertheless, as the results of our CDA suggest, in the context of economists' debates associated with the AFG of 1969 and Hartz IV of 2005, some patterns of discourse were dominant or even hegemonic. We conclude our paper by summarizing these discursive patterns on three levels, and thereby answer the three previously articulated research questions:

With respect to our first research question regarding the typical patterns in the discourse of economic experts in academic and media debates on LMP reforms, we found that in the 1960s, due to Keynesian influences, economic experts thought about unemployment from a macroeconomic perspective as primarily being caused by general economic developments. Against this background they supported the implementation of an *active* LMP in order to re-establish full employment. In doing so, they contextualized (the goals of) social policies in the framework of an overall societal policy and its respective objectives (e.g. distributive justice). In the 2000s, on the other hand, economic experts, due to neoclassical influences, conceived unemployment from a microeconomic perspective as primarily being caused by institutional rigidities. Hence, they supported the concept of an *activating* LMP in order to reintegrate (especially the low-skilled) unemployed into the labour market. In doing so they stressed the necessity of a general transformation of the welfare state in order to re-establish 'individual initiative' and 'private responsibility'.

With respect to our second research question regarding the relationship between the transformation of discourses about LMP and the paradigm shifts in economic ideas, we tried to show that the latter were of crucial importance for the former due to the influence they exerted on these discourses. Undoubtedly, economic factors, for example, the low unemployment rates, or political factors, for instance, the impact of the social partners in the 1960s compared to the 2000s, exerted a significant influence on the policy change in the field of LMP. Nonetheless, discursive factors, namely the paradigm shift from Keynesianism to neo-classical/neoliberal thought, insofar played a major role, as those paradigms served as a kind of 'politico-economic rationality' for the justification and legitimization of the different approaches to LMP. That is to say, in their function as 'economic imaginaries' understood as a heterogeneous set of ideas, thoughts and world-views they served as guiding principles for policy-makers in their search for new ways to overcome the crisis.

And finally, also with respect to our third research question regarding the perception of the role of economic advice in the policy-making process and the respective conceptualization of the relationship between politics and expertise in the debates analysed above, we found major differences between the 1960s and the 2000s: In the 1960s, on the one hand, the majority of the economists shared the positive vision that economic knowledge could support future-oriented social policies and thus induce societal progress on the basis of rational planning for (and democratic decisions by) politicians. The economists' discourses of the 2000s, on the other hand, were characterized by a negative image of policy-making processes and politicians as well as, partly, a pejorative portrayal of the unemployed. In sharp contrast to the evident relevance of their work in policy reforms, economists complained about the ignorance of politicians and the public in the face of 'undeniable economic rationalities', and acted as sole purveyors of the bitter economic truth.

In summary, we conclude that economic terms, concepts and theories associated with the transformation from the 'Keynesian planning euphoria' to the 'neoliberal bitter economic truth' had a significant impact on the German LMP reforms of the 1960s and the 2000s. By focussing not primarily on the concrete practices associated with the different approaches of LMP, but on the more abstract 'economic imaginaries' behind those practices we intended to contribute to the analysis and critique of these reforms and their social implications.

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