THE THIRD WAYS OF SOCIAL DEMOCRACY INTO THE 21ST CENTURY

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Introduction

A sweeping view of the 20th Century reveals a clear trend in social democracy: it runs from the radical rejection of the bourgeois-capitalist order, the abolition of the private ownership of the means of production, the acceptance of a market economy run on welfare state principles and controlled by Keynesian strategies, through to the recognition of societal inequality as a legitimate and functional stratification pattern in highly developed market economies under the conditions of globalised economic transactions. A continual process of political deradicalisation over the past hundred years can thus be identified in European social democracy. From a conspiracy theory perspective this is of course viewed as a downward slope and a permanent betrayal of the ‘real’ goals of the workers’ movement. There has been no lack of such crude findings either from within the movement itself or from scientific circles. Indeed, only the concepts have changed: at the end of the 20th Century the verdict of neoliberalism has emerged replacing that of the betrayal of the labour movement from the beginning of the Century.

From a more functionally aware and actor-centred theoretical, rather than an emotive and ‘affected’, perspective, the programmatic and political deradicalisation can be explained by two dialectically overlapping factors: the changing opportunities for political action, along with their consequences, which take the form of policy outcomes and in turn influence the structural arenas for action and strategic options of social democratic parties in government. From here the thesis that different contexts in time and space also necessitate varying strategies and ‘ways’ for successful social democratic government action can be convincingly deduced. This would apply only where social democratic parties had not only the same fundamental principles, but also the same goals. It is precisely about these goals, their relative importance, and the appropriate strategy to achieve them, that a new wave of revisionism has erupted in political discourse and in the actual political sphere of European social democracy. The impetus for this debate came, not from within Germany, as at the end of the 19th Century, but led from Great Britain by Tony Blair’s New Labour Government and Anthony Gidden’s (1998) “Third Way”¹. At the end of the 20th Century the debate about the Third Way has become the most important reform discourse in the European party landscape.

My reflections on the renewed revisionist debate at the end of the 20th Century will proceed in four stages:
1. The Third Way as a theoretical concept

2. Resources and constraints for social democratic politics at the end of the 20th century

3. The third ways of social democracy in Western Europe
   3.1 the market-oriented way: New Labour
   3.2 the market- and consensus-oriented way: the Dutch ‘polder model’
   3.3 the reformed welfare state way: Sweden
   3.4 the statist way: the Parti Socialiste Français

4. Europe as a ‘third way’

1. The theoretical concept of the ‘Third Way’

The theoretical notion of the ‘Third Way’ was definitively formulated by Anthony Giddens (1998, 1999). The ‘way’ was no longer to follow the wide avenue between capitalism and communism, but was rather to take a considerably narrowed path between the radical neoliberalism of the 1980s and the old statist-corporatism of post-War social democracy (ibid: 18). From the outset, Giddens and New Labour’s new think tanks can be seen as distinct from their own past and from some contemporary social democratic parties on the continent: they no longer view the globalisation of financial markets, the Europeanisation of goods markets and the associated national race for competitiveness simply as an inconvenient constraint on social democratic government policy. Instead, they see it much more as desirable, serving as a modernising whip on entrenched economic and social structures. Further, globalisation relieves the government of a considerable burden of legitimacy for reforms as far-reaching as they are necessary, particularly where they are directed at strong established interests. However, as a consequence of the globalised money and capital markets, the Third Way theorists see the scope for national monetary and fiscal policies, as well as for macroeconomic employment and structural intervention, as being much narrower than was the case during the ‘golden era’ of social democracy (1945-1973). The realistic acceptance that globalisation is both a constraint and a resource has considerable implications for social democratic politics. The dispassionate view of the new social democratic realists has frequently led to them being given the label of ‘neoliberalism’. It therefore needs to be asked here, to what extent the Third Way can be differentiated from neoliberalism, so as to then distinguish it from the traditional corporatist-statism of post-War social democracy.

Giddens and New Labour share with neoliberalism an aversion to state macroeconomic intervention in the markets. They accept the conservative fiscal policy of budgetary consolidation, oppose increases in welfare expenditure and support the independence of the European Central Bank. Nonetheless, there are differences and these are frequently underplayed by the critics of the Third Way. Giddens criticises, for example, that neoliberalism does not assume responsibility for the political and social consequences of market outcomes (ibid.: 23f.). He argues that the trickle...
The effect of a prosperous capitalist economy is by itself insufficient to give the lower classes a fair share in social prosperity.

Aside from this, the radical individualistic-utilitarian ethic of rational market behaviour is not capable of generating those moral foundations, upon which the markets also rest – contract-keeping, trust, promise-keeping, respect for the legal rules of the markets, taxation laws; that is, a set of civil virtues and a level of community orientation necessary for the efficient functioning of market economies. Moreover, human capital can be most economically effective only when it is sufficiently embedded in social capital (Putnam 1993; Szreter 1998). From this perspective Giddens’ and New Labour’s ‘discovery’ of communitarianism seems more astute than if it were to be seen purely as an alibi for the dismantling of the welfare state. Finally, a minimalist social security net of the kind characteristic of neoliberal concepts, is considered to be inadequate to guarantee Giddens’ social inclusion within society (1999: 132f.).

Even this cursory summary of critiques of neoliberalism elucidates the distinction between radical market fundamentalism and the neoliberal vision of the minimal state on the one hand and the concepts of the Third Way on the other. Labeling it as neoliberal does not make analytical sense and can be seen as having a strategic function in day-to-day political polemic.

Nonetheless, just as clear as the demarcation from neoliberalism is the distancing of the Third Way from from traditional continental social democracy. Third Way theorists especially criticise three key stances relating principally to the differing understanding of the structure and function of the welfare state:

- what is argued as the illusion that an increase in social expenditure will automatically lead to a reduction in socio-economic inequality;
- the passive nature of welfare entitlements in the traditional welfare state. Instead of leading to more socially-oriented and individually-responsible citizenship, it leads to privatism, dependency, a loss of discipline and a lack of motivation to adapt oneself to the new educational challenges of the changing labour market (Giddens 1999; Plant 1998: 6).
- the traditional welfare state, rooted primarily in the logic of the classical industrial modernity, has proved too inflexible in the face of post-industrial problems. In part it protects the wrong kinds of social groups, while rarely incorporating new kinds of social risks into its insurance and safety net. Furthermore, welfare payments no longer meet the realistic individual needs and social challenges of the heterogeneous society at the end of the 20th century.

New Labour does share with traditional social democracy the commitment to social justice. However, it is no longer defined as egalitarian in the sense of being an ex-post remedy for market inequalities. Rather, it is conceived of much more as the a priori prevention of social marginalisation, poverty and social exclusion. To meet this common social democratic commitment to social justice,
however, New Labour proposes to follow a path that deviates from social democratic traditions. ² I want to briefly elucidate this path with the following four key concepts upon which Giddens bases the defining elements of his Third Way (Giddens 1999: 119 ff.): inclusion, exclusion, employment and welfare to work.

Giddens both modifies and specifies central programmatic topoi, which had long since degenerated into inconsequential images of identity cherished by those guarding the social democratic traditions. This is the case firstly for the term equality. ‘The new politics’, he writes, ‘defines equality as inclusion and inequality as exclusion’ (1999: 120). For him inclusion means the formal attribution and actual realisation of the political rights and civil duties that every member of society possesses and should fulfil. However, the actual realisation of these formal rights and responsibilities depends to a large extent on citizens’ equality of opportunity. In a working society access to education, training and to work is the definitive form of equality of opportunity. Welfare payments cannot replace this access and must above all not be allowed to complicate it. Equal opportunities, education and training are thus fundamental to the Third Way project. Giddens emphasises that they would be crucial even if they were not as important as they are for opening up labour market opportunities (ibid.: 121). That is, he views equality of opportunity, to be achieved principally through education and training, not just as a labour market tool, but also in general as an emancipatory instrument for opportunities in life.

Giddens (1999: 121) distinguishes between two forms of exclusion in modern society that should be prevented in contemporary developed societies: voluntary self-exclusion at the top end of society and the mostly involuntary exclusion at the bottom end. At the top end Giddens talks of a silent ‘revolt of the elites’ (ibid.). According to his diagnosis, society’s rich have increasingly retreated from public institutions: they evade tax liability to an increasing degree and refuse to contribute to the public education and health systems. ³ The involuntary exclusion at the bottom end arises out of long-term exclusion from the labour market, and through the uncoupling of growing prosperity and participation in cultural opportunities. In its place both social stigmatisation and the concentration of excluded citizens living in residential ghettos increase. The lack of inclusion, and the exclusion of a noticeable part of society in welfare state societies that was de facto tolerated and fought unsuccessfully and with ineffectual policies, is one of Giddens’ sharpest and most striking criticisms of the traditional European continental welfare states and the once celebrated ‘Model of Rhineland capitalism’.

To prevent this double exclusion, and to facilitate social inclusion, New Labour attaches paramount importance to access to work. Work, and not compensatory welfare payments, is seen as the only way out of poverty and social marginalisation that promises to be successful. However, access to work should not be secured primarily by way of classical state-financed employment programmes or through demand driven deficit spending at the macro-economic level. Instead, it
should be facilitated at the micro-economic (i.e. individual) level by increasing the *employability* of every individual. This means on the one hand increasing individuals’ duties, but on the other hand demands that the state actively create the opportunities that strengthen the necessary individual responsibility. The cornerstones of this strategy are public *and* individual investment in further education, life-long learning and the establishment of as much equality of opportunity as possible. The traditional, passive-compensatory welfare state hinders the responsibility of citizens to subject themselves to this learning process. Moreover, embedded long-term unemployment leads to many cases of exclusion that are unintended, yet are ‘facilitated’ by the welfare state.

The welfare state must be restructured into a social investment state in order to increase the responsibility on individuals to reintegrate into the labour market and acquire the necessary qualifications. Here Blair’s campaign slogan ‘education, education, education’ is linked to the ‘welfare to work’ principle. It signals the paradigm shift from the goal of ex-post distribution via the tax system and welfare payments to the ex-ante goal of equality of opportunity in the labour market. Social policy is no longer to be geared towards solving the social problems of the market economy through passive monetary compensation. Instead, the goal is much more to integrate people into society through educational programmes, retraining and temporary subsidising of jobs. Active educational and labour policy should prevent socio-political damage and not just passively support people retrospectively. This was also always the maxim of Swedish social democracy, though it was embedded for decades in a universalistic welfare state. New Labour, however, does not want to follow this latter option at all. It argues that the welfare state should be targeted much more to the really needy. It should no longer stretch to include the entire middle class or artificially erect barriers to entry into the workforce or retraining through the provision of overgenerous benefits. The concept of the Third Way is no longer based on a political culture of solidarity, work and social morals. Instead, it assumes individual rational utility-maximising actors.

New Labour has abandoned the classical social democratic ‘model’ of a generous universalist welfare state. Theorists and practitioners of the Third Way do, however, want to prevent the ‘Americana’ of British society. Social exclusion, societal anomie, rising crime and the emergence of a large underclass are to be prevented in order to enable British people to integrate and again become ‘one nation’ (Blair). Raymond Plant, a Labour Member in the House of Lords, aptly calls the welfare state concept: ‘supply side citizenship’ (1998: 9). In this context supply side citizenship means that the state establishes the framework within which citizens should then realise fair opportunities through individual responsibility. It becomes clear that from such a perspective citizenship is less a conferred right and much more a goal with related duties for which one must constantly strive. It can only be attained through participation in the workforce and the onus is thus on the active state to establish the basic conditions necessary to access the labour market. Each individual is then obliged to responsi-
bly utilise these opportunities. This could be labelled a revamped social democratic ‘social contract’. However, the contracting partner and the end result of the contract is no longer the benevolent-paternal welfare state. Rather, it is a state more strongly rooted in liberal (equality of opportunity) and communitarian (protection of the community from the negative effects of individualisation) principles. In terms of legitimising power, the meritocratic principle of the market in Giddens’ concept of the Third Way has gained ground on the insufficiently fostered notion of solidarity. Although Giddens, Plant and others leave no doubt here about the active role of the state, they seem fully prepared to accept greater income inequality as a market and policy outcome. Their acceptance ends only at the point where this leads to voluntary and involuntary exclusion in the higher and lower strata of society.

2. Resources and Constraints of Social Democratic Politics at the End of the 20th Century

Theoretical concepts and political programs are not to be automatically transformed into policies. There are usually at least two filters standing between the principles, goals and policy proposals of a party’s programme and its realisation (Elster 1979). These do not only influence the actual policy decisions (outputs) and policy results (outcomes), but are also frequently taken into consideration when strategies and programmes are designed. The first filter consists of both the resources available to a party for implementing its goals and the constraints restricting it: this can be called the structural filter of political action.

To a large extent this first filter structures the political arena and defines the corridors of action that are open to political actors. This can be viewed both objectively (confining conditions) and subjectively (perception, interpretation). The perception and assessment of this constraint and resource filter marks out the cognitive strategic horizons of political actors. Within these boundaries there is thus a limited number of options open to political actors. From among these options they make their choices in a second filtering process. This second filtering process is determined by filter 1 and the interaction of strategic and political interests. Normative considerations become often secondary. Beyond the structural constraints and normative considerations the political choices are particularly influenced by competition and cooperation among relevant political actors, particularly government, parties, organisations, business interests and the media. Whereas the first filter represents “structure”, the second filter represents “choice”.

Both filters determine the strategic and substantive contours of politics. The walls of this structural corridor of action (the so-called confining conditions) are, however, by no means immovable. This is because political decisions that are made and implemented affect the nature of the first filter, which in turn can narrow or widen the “corridor of action” for the subsequent choices. In this sense
each government is the heir of the politics that has preceded it, whether it be a party's own or that of a political opponent. It is the varying weight of this legacy that plays a large and varying role in the opportunities open to social democratic parties at the turn of the century.

Which are the specific elements of the filters that impact on social democracy’s search for "Third Ways" and the "New Centre"? The most significant of these will be outlined here, rather than discussed in detail.

2.1 Filter 1: Resources and Constraints Resources

The three most important resources for West European social democracies during the 1990s are:

- Social democratic parties’ share of the vote in Europe: as an aggregate number this is no higher in the 1990s than in the post-war decades (see Table 1). But at the end of the decade there is a peak of social democratic votes remembering the golden years of the sixties and seventies (Merkel 1995).

- Governmental power: On average this is no higher in the 1990s in Europe than in the previous post-war decades. However, in 1999 it is at an historic level. The fact that social democratic parties are governing alone or are dominant coalition partners in 12 EU countries is not so much a trend, but more of an unprecedented coincidence. Whether this “historic moment of opportunity” consolidates into a medium-term trend depends partly on the credibility and success of the social democratic parties in key policy areas over the next years.

- Decline of conservative and neo-liberal parties in the 1990s: Of course this is also not an irreversible trend. Rather, it appears to be the temporary exhaustion of a political cycle of about two decades of neo-liberal politics, which social democratic parties and governments can exploit.

Opposing these resources, located largely in the political arena, are considerable economic and social constraints which restrict social democratic governance. The most important are:

- globalisation (especially of the financial markets);
- Europeanisation of product markets;
- independent European Central Bank with a monetarist statute;¹
- high national indebtedness narrows the room to move, particularly in high-cost areas such as social policy;

¹ For the Red-Green coalition in Germany this is certainly not a heightened constraint, as the ECB may follow a more relaxed monetary policy in the medium-term than the German Federal Bank. However, for countries such as France, Italy and Finland there is in future likely to be less scope for action.
- demographic shifts: the shift in the age pyramid of the society forces changes in old age pension and health policies for reasons of cost;

- heterogenisation of the social structure: the main target group for social democratic policies can no longer primarily be the shrinking male (industrial) workforce or employees;

- individualisation (values, lifestyle etc.) forces a pluralisation of policy content and a change in the hierarchical style of politics

- Compared to the "Golden Age" (1950-1973) the voters of social democratic parties are socio-structurally (primarily industrial workers) and socio-culturally (dense social democratic milieus) less strongly anchored in a core constituency. Rather, they have become more volatile. This means that social democratic parties have to take into consideration an electorate willing to switch allegiances between elections much more than was the case in the immediate post-war decades. The strategic-political boundaries thus become narrower and, despite normative assertions to the contrary, the choices of social democratic governments are more strongly influenced by tactical electoral considerations.²

Whereas these constraints – albeit with national variations – affect all social democratic governments, there are elements in the structural filter that cannot be classified as restrictions or resources a priori and independently of national political contexts. To this group belong:

- institutional structures of the political system: it makes a significant difference whether the political systems tend to resemble more centralist-majoritarian or more federal-consensus democracies (Lijphart 1984). In the first instance the government's ability to access and organise the political agenda will be greater, more direct and quicker than can ever be the case in consensus democracies where governments are forced to negotiate and reach compromises.³

- coalition potential in the party system: single-party government (Greece, Great Britain): left-wing coalition (Germany, France, Italy, Sweden); centre-left coalition (Denmark, the Netherlands); grand coalition (Belgium, Finland, Austria: until January 2000);

- trade unions' strength and willingness to co-operate;

- business interests' strength and willingness to oppose or to cooperate;

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² This should not be understood as an accusation or betrayal. It simply recognises the fact that the nature of politics in democracies depends a lot on voter choice. However, if voters' party loyalties have become weaker and individual voting decisions depend less and less on the socio-structural and socio-cultural socialisation process, then parties will adapt themselves much more to the changing voter preferences (which are strongly influenced by the media) than to the long-term programmes based on normative principles and rational structural considerations.

³ Lijphart classified Great Britain (like most Anglosaxon democracies) and Switzerland close to the ideal-types for majoritarian and consensus respectively. In the current social democratic governments Great Britain and France tend more strongly towards a "majoritarian" and hierarchical style of politics and decision-making, whereas the Netherlands, and likewise Germany, (has to) tend more towards consensual politics (see below).
- media: in the short-term the media allow themselves to be influenced by the modern PR work of people such as Mendelsohn (Labour Party) and Hombach (SPD). In the medium-term, however, their (independent) influence on politics is likely to be stronger than the other way around. This is especially the case in federal systems like Germany where state elections force the federal government continually to justify itself in the public arena shaped largely by the media;

- European Union: for the time being the EU is reducing national governments' powers. These powers can be regained only with difficulty through negotiation and compromise in the interconnected multi-level system of the EU (Scharpf 1999). However, given a corresponding willingness to reach compromise and consensus, new opportunities of policy making, which nation states had lost through the globalisation and Europeanisation of markets, could emerge in particular policy areas.

- politico-cultural traditions and values: content and style of governance are embedded in national political cultures. Dominant societal values and political preferences in the individual countries (such as the stability of the currency in Germany, full employment in Sweden, high levels of welfare in Denmark or freedom with respect to work and leisure time in the Netherlands) can be influenced only in the medium- to long-term. In the short-term, however, they act as important independent constraints on policy formulation.

2.2 Filter 2: Options and Decisions

The second filter is not constituted by structures. Rather, the structures simply represent the "boundaries" of the political arena. However, within these borders there is a certain range of choices (strategic choices and policy choices as well) for the governments. If this were not the case it would in fact make no difference which party governs, something that is not just suspected often by voters, but which is contended from time to time by social science theorists, such as Luhmann (e.g. 1984), or empirical studies (Wilensky 1981). In a second filtering process the particular policy options from this "feasible set" are then transformed into binding decisions through parliamentary majorities and governments. These decisions are thus affected by:

- coalitions and alliances;
- perceptions and interpretations of the options;
- programmatic and policy goals of governments.

With respect to filter 1 all Western European social democratic parties currently face similar external constraints, whereas the internal restrictions and resources vary much more. Just as variable are the political decisions within the second filter. These variations in "actual policy" are primarily influenced by the differing national resources and constraints, the differing perceptions of the ac-
tors, and their contrasting programmatic goals. However, the list of constraints indicates that at the end of the 20th century the external restrictions have increased and the political room for manoeuvre, i.e. the "feasible set" of realistic options, has shrunk. Yet, if we look more closely at the programmes and policies of the governing social democrats, we can identify different styles and contents of social democratic governance, or, metaphorically speaking, different routes of the Third Ways that are leading social democracy into the 21st century.

3. The various ways of social democracy in Europe

Blair, Giddens and New Labour’s new idealogues want to turn the Third Way into the great reform project for not only British, but also European social democracy in the 21st Century. However, I have argued above that varying national problems, cultural traditions and institutional set-ups also dictate different paths for reform. In Western Europe at least four different paths can be identified that represent a distinct programmatic, strategic and political profile: the market-oriented way of New Labour, the market and consensus-oriented way of the Dutch polder model, the reformed-welfare state way of the Swedish (and Danish) social democrats, and the statist way of the French socialists. The labelling does not establish any ideal types. Rather, it highlights a characteristic and distinctive feature of the social democratic governments under discussion. These distinctions also reveal my selection criterion in presenting the various third ways – the selective analysis restricts itself to key fiscal, employment and social policy measures. At the end of each chapter the various ‘ways’ of the social democratic-led governments are judged by weighing up their respective strengths and weaknesses in light of the social democratic principles of economic efficiency and social justice.

3.1 The market-oriented way of the New Labour government

Of all the social democratic governments in Europe Tony Blair’s Labour Government (1997-) enjoys both the most resources and the fewest constraints in implementing policy. Because of the simple majority electoral system, 43% of votes was sufficient for the party to gain a parliamentary majority of 178 seats and thus to enjoy a comfortable governing majority in parliament. The Labour Government does not have to take into account a coalition partner. The Conservative Party’s temporary decline and loss of votes and seats was more sudden and striking in Great Britain than for most conservative parties on the continent. The dramatic weakness of the opposition gave the Labour Government more room to move than is enjoyed by most governing social democrats in Europe. On top of that is the majoritarian institutional structure, which facilitates hierarchical, unilateral governance much more in Britain than in the federal consensus democracies of most continental countries. (see Lijphart 1984; 1999). The state structure that remains highly centralised de-
spite moderate devolution, upper chamber that is largely irrelevant to the policy process, the absence of a powerful constitutional court, the lack of a written constitution, and a reserve bank that remains at least partially bound by instructions, all combine to give the British government only slightly fettered political power. Both the formal constitutional and the actual political power of a British prime minister and his or her government is without match in Western Europe.

Even the political legacy of the British Conservatives can be considered more a resource than a restriction for the goals and policy instruments of the Third Way, as – in contrast to the Christian-liberal coalition in Germany (1982-1998) – the Tories (1979-1996) undertook structural reforms that have enhanced the Labour Government’s reform options. In particular, Margaret Thatcher’s governments legislated to greatly reduce unions’ blockading strength and introduced labour market deregulation that opened up options for a new kind of employment dynamic. The Labour Government could therefore immediately embark on its welfare to work project without being bound up in delegitimising conflicts with employees and their unions about labour market deregulation.

**Fiscal policy**

Like all other current social democratic governments New Labour rejects a classical Keynesian economic policy. Indeed, during election campaigning it committed itself to continuing the conservative fiscal policy for at least two years of the previous government and subjected itself to two general rules (OECD 1998):

- All current expenditure is financed only by current revenue. New indebtedness can be entered into only for purposes of investment, not consumption;
- New public debt should be held at a ‘stable moderate’ level independently of the business cycle; it should not pursue short-term anti-cyclical intervention.

However, the British budgetary policy was no more restrictive than those of most social democratic (and conservative) governments on the continent (OECD-Economic Outlook June 1999). Moreover, instead of channelling unexpected tax revenue primarily into debt reduction, under Gordon Brown the Treasury instead used it to finance special education, employment and health programmes.

On the revenue side, New Labour has begun to reorganise the tax system, so that low-wage earners will receive either full or significant tax relief. Households in which at least one person works full time will be guaranteed a minimum income of 10 000 British Pounds through working families income tax credits. Until then household income will be subsidised via a degressive negative income tax, following which the base-level tax rate of 10% will take effect (Krönig 1999). It is here that the labour market inclusion strategy is evident: first, demand will be stimulated in the low wage employment sector, while, second, such jobs will be made economically viable so as to avoid or at least lessen the American disease of the working poor.
At the same time, company tax was further reduced and under the Blair government they are the lowest in the European Union. Both tax reforms must be seen as supply-side measures that have the primary goal of stimulating employment in a sustained manner and thereby preventing the ‘involuntary exclusion’ (Giddens 1999) at the lower end of the social scale.

**Employment policy**

Between 1996 and 1999 employment in Great Britain grew at a slower rate (1.03 %) than in the EMU area (0.87%). However, this base level employment growth resulted in a considerably higher rate of participation (1997: 75.2%) than within the EMU area (1997: 65.1%)\(^\text{11}\) and the unemployment rate (declining from 8.7% in 1996 to 6.3% in 1998) dropped more quickly than in the EMU countries (1996: 11.6%; 1998: 10.9%)\(^\text{12}\). The labour market, which New Labour had left largely deregulated, thus proved more dynamic than most (regulated) labour markets on the European continent. New Labour had better promoted the traditional social democratic goal of inclusion in the labour market (full employment with high rates of participation) than had most social democratic and conservative governments on the continent.

The New Deal is the most notable part of the active labour market policy. Its principal aim is to reduce youth unemployment. The combination of instruments it uses reflect the mixture of incentive and compulsion so characteristic of New Labour: on the one hand young people are employed via subsidised positions in the private sector and job creation measures in the public sector. As an alternative, state-financed training programmes are offered. On the other hand, the controls and unreasobleness criteria guiding the acceptance of employment have been tightened, to be punished by significant cuts in social transfers (Dingeldey 1999; Robinson 1999). These measures aim to eliminate both free riding and those cases of unemployment where accepting employment is not worthwhile because the income is barely above (or even below) the level of welfare benefits. 280,000 young people have so far participated in the programmes of the New Deal, of which 105,000 have found new employment. Most jobs are sustainable and are located in the first (regular) labour market. In three years of government the Labour administration has succeeded in further reducing youth unemployment and halving long-term unemployment (Brown 1999: 52). However, even after these three years in office, expenditure for the active labour market policy is still visibly beneath the European or even the Scandinavian average. The British figures do improve somewhat if one includes the considerably increased investment in education and training that aims to raise the employability\(^\text{13}\) of young people and adapt to the ever-changing qualifications demanded by the labour market. Results in employment can thus first be expected in the middle-term.

**Social policy**
New Labour is selectively reforming social policy according to the principle of ‘welfare to work’. Welfare state measures are generally being judged according to how much they increase pressure to enter the labour market. Welfare transfers are intended to act as an incentive (or pressure) to accept employment and certainly should not prevent this. The passive welfare state is thus to be progressively restructured into an active social investment state, with education, health and children the preferred areas for investment. For example, a generous child care tax credit enables women to enter the workforce (Dingeldey 1999: 333). Backed by tax reforms for those on lower incomes, 1.25 million citizens (among them the families of 700 000 children living in poverty) are to be pushed over the poverty line by the end of the legislative period (Darling 1999: 36).

While the first considerable investment and restructuring of the National Health Service has brought modest success, there is no evidence of long-term reform of the old age pension. In contrast, there has been a visible retreat from the social democratic ideal of universalism in social policy. The criteria for assessing need have been tightened, with Alistair Darling, the Minister for Social Security, characterising this as a necessary shift in the ‘culture of social benefits’ (ibid.). This may indeed prevent abuse of welfare benefits and better target social security to those in real need, yet this may be at the expense of social stigmatisation and a necessarily enlarged bureaucracy when it comes to need assessment. New Labour itself legitimises this illiberal-statist measure with the following argument: only when the government demonstrates to tax payers that it is preventing abuse of the welfare system and acting as a safeguard for only the really needy and who cannot be integrated into the labour market can the welfare state re-legitimise itself in the long-term and ensure its financing by citizens. Although this argument can claim to be a completely strategic rationale in an era of declining tax morals, the Blair Government underestimates another risk – the extent to which New Labour’s exclusion of the middle classes from key benefits makes the welfare state more vulnerable to calls for further cuts. If they act economically rationally, the middle classes will no longer support a highly targeted welfare state that demands tax from them but offers few benefits in return. The really needy do not have a strong political voice and rely on altruistic advocates in the political arena. New Labour has so far failed to produce either persuasive policy or convincing political action to address the danger that the selective and targeted welfare state will suddenly turn into a marginal one.

The strengths and weaknesses of New Labours policies

Strengths

- the abandonment of protective measures that would hinder economic growth and thus lead to a loss in economic and social welfare is more credibly conceived of and realised by New Labour than by the other social democratic parties and governments;
the labour market deregulation inherited from Margaret Thatcher and largely accepted by New Labour reduces the socially unjust discrimination of outsiders (particularly young people and women) in favour of insiders (typically unionised workers). Moreover, the deregulated labour markets facilitate fast structural change from old industries to the knowledge-based service sector;

- the reorientation of a welfare state structurally rooted in the industrial age and with a socially unjust bias towards the middle classes to one focusing on those in real need leads to desired rather than undesirable redistributive effects;

- the particular emphasis placed on education, training and learning recognises the value of human capital and its embedding in social capital (trust, fairness, cooperativeness, team spirit) in its meaning for the individual, the economy and society; the pressure that the state places on citizens to assume individual responsibility for their own human capital seems socially just from both an individual and a societal perspective.

Weaknesses

- by largely abandoning anti-cyclical fiscal and monetary policies the abdication of political control in favour of the volatile and democratically non-legitimated forces of the market has been accelerated;

- giving up the use of the tax system as a powerful means of redistribution will increase social inequality; a high degree of social inequality is detrimental to social cohesion and trust both among citizens and vis-à-vis the state;

- the downside of the flexibilisation of the labour market is its discrimination of older workers and the forced horizontal and geographical migration of job-seekers; an additional price of flexibilisation is the weakening of trade unions’ bargaining power, which has the probable consequence of lower wages and a further redistribution from earned income to capital;

- the targeting of the welfare state to the really needy, justified from the perspective of social justice, makes the welfare state more vulnerable to demands for its further reduction. That is, if the middle classes no longer benefit from welfare transfers and social services they lose their economic interest in the welfare state and will rationally call for further cuts, as they receive little benefit from the welfare state, yet partly finance it through their taxes. The welfare state will thus lose important allies with an influential political voice. Further, the danger of a ‘two-thirds-society’ is thus very real in Great Britain, as the number of people living below the poverty line is currently already twice as high as in Germany and most continental European states.
3.2 The consensus-oriented way to more market: the Dutch ‘polder model’

The political institutions of the British Westminster Model, the deregulation carried out during the Thatcher Era and the relative weakness of interest groups have so far allowed New Labour to push through its market-oriented political reforms in a largely hierarchical and paradoxically statist manner. However, a comparable centralist institutional and political setting does not exist on the European continent, even in France. The Partij van de Arbeid (PvdA) in the Netherlands is an example of one party and country that comes relatively close to New Labour’s market-oriented goals, but which is furthest from New Labour in the strategies and means it has adopted to achieve the goals. While Blair’s Labour Government has followed the traditional majoritarian strategy, the Dutch ‘polder model’ is strongly shaped by consensus: the reforms were agreed upon among both the political parties and the social partners through a democratic negotiation and compromise process. The (traditional and neo-corporatist) socio-economic council and the Wassenaar wage agreement form the institutional framework that has been successfully utilised for economic and social negotiations against the backdrop of increasing social democratic participation in government since 1982 and after 1989 (Visser/ Hemerijk 1998: 111ff.).

Because of the consensual way in which they were negotiated, the market reforms turned out to be less radical than in England. In the longer term, however, they may have the advantage of more stable support from those affected by the reforms, as they were included in the decision-making process much more than has been the case in New Labour’s hierarchical style of politics. The Dutch case has shown how strongly political institutions, traditions and cultures mold political strategies, force actors to negotiate and cooperate, but nonetheless facilitate innovative employment and social policy reforms. In other words, the British way would not have been possible in the Netherlands and the Dutch way was not necessary to carry out the reforms in Britain. The style of politics and decision-making diverge, while the policy goals and outcomes increasingly converge in key areas (such as the labour market). However, in contrast to Great Britain the ‘Dutch miracle’ of the nineties is by no means attributable only to the social democrats. Rather, it was engineered by coalition governments in which at various times Christian Democrats, left-liberal and right-liberal parties participated (Becker/ Cuperus 1998: 249 ff.).

Fiscal policy

The PvdA has also committed itself to a restrictive budgetary policy that has been pursued during both the ‘grand coalition’ with the Christian Democrats (1989-1994) and the so-called ‘purple coalition’ (PvdA, VVD, D’66) from 1994 onwards. Since 1994 the purple coalition has had two priorities in fiscal policy: first, reduction of the budget deficit and gross state indebtedness, and, second, reduction of tax and duties so as to stimulate investment and encourage employment. To achieve the first goal a ceiling was placed on central administration and welfare insurances. In the first four
years of government this lead to a reduction in expenditure of 0.4% per annum. Growth-induced revenue was used strictly for reduction of the budget deficit. From 1994-1998 public expenditure dropped by more than 5% to 42.6% of GDP (OECD 1998: Economic Survey Netherlands 1997-98: 51). Budgetary consolidation was carried out not least by a reduction in social expenditure, especially the invalid benefit, as generous as it was abused. The social democrats implemented these cuts in the face of opposition from trade unions and parts of their own membership and voter base in just in the grand coalition (Becker/Cuperus 1998: 253). They also pressed on with the policy as part of the purple coalition. There was no neo-Keynesian stimulation of aggregate demand on the expenditure side and only a modest amount on the income side. Income taxes were cut: the top tax bracket from 70% (1989) to 60% (1996) and the base-level tax bracket from 14% (1989) to 6.35% (1996) (ibid.: 162f.). The latter measure in particular stimulated employment in the lower third of the service industry and also holds up well against social democratic principles from the perspective of distributive politics. The tax cuts were thus aimed less at a general increase in the aggregate effective demand, rather were much more targeted at the creation of part-time work and low-skilled service jobs.

Employment policy

The employment record of the past two decades in the Netherlands is impressive. Employment growth began in 1983 and lasted until 1992. After a short period of stagnation employment again began to rise at a quicker rate on average than in most OECD states (Visser/Hemerijk 1998: 43). The Netherlands performed better than most EU states – except Denmark – on almost every indicator of labour market success. Between 1992 and 1996 employment grew at 1.6% per year compared to the average for EU states of 0.4% per year. Workforce participation increased from 52.0% (1982) to 71.5% (1997), recording the highest increase among OECD countries (OECD 1996; OECD 1998a). Unemployment has dropped to 6.2% (1997), significantly below the EU average of 9.8% (OECD 1998a). Female employment, traditionally one of the lowest in the Western world (1973: 29%), has rapidly increased to 60% (1997). How exactly did this ‘employment miracle’ (Schmid 1996) result, whereby the Netherlands came to perform so well on all three central employment indicators of workforce participation, female employment rates and unemployment? Further, what part in this can the Dutch social democrats claim?

The success is essentially the result of three factors: moderate wage increases, the development of labour intensive service industries, and, above all, the redistribution of work (Visser/Hemerijk 1998: 44). Wage restraint promoted investment, raised net exports because of comparative cost advantage and meant that more people could remain in employment. Long-term wage restraint was made possible by a series of neo-corporatist agreements, with the way being led by the famous Wassenaar Accord in 1982. As these were mostly bipartisan agreements between tariff partners, the
role of the government was in the first instance restricted to moderating interest groups or implementing associated measures. The state’s role in the redistribution of jobs through its substantial encouragement of part-time work was undoubtedly of greater importance. In the nineties it was those governments strongly influenced (1989-1994) or dominated (1994-) by social democrats that played an increasingly important role here. In several tariff agreements, but also in associated legislation, the economic, tax and social policy barriers to part-time work were largely eliminated. Above all, this induced (married) women to enter the labour market. The ‘model of one and a half jobs per household’ has since gained more and more ground (Visser/ Hemerijk 1998: 66). With 36% part-time jobs, there are in the Netherlands both more women and more men in part-time employment than in any other OECD country (ibid.: 53).

Apart from wage restraint and additional social policy measures, these successes were also achieved through moderate labour market deregulation. With respect to patterns of employment, length of employment, and the flexibility and advanced tertiarisation of employment, the Netherlands have moved closer to the Anglo-Saxon labour markets (Visser/Hemerijk 1998: 57). There are, however, two exceptions to this: on the negative side, even the Netherlands was unable to overcome the continental affliction of long-term unemployment. On the positive side, the employment dynamic has not led to an income dispersion of American dimensions and the accompanying phenomenon of the working poor. The case of the Netherlands is therefore evidence that, contrary to traditional union and social democratic thinking, moderate deregulation of labour markets can lead to more, and to more justly distributed, employment. That this can occur in a harmonised and cooperative way, and that it facilitates emancipatory side-effects (female employment, male part-time work), further weakens future arguments of those defenders of regulated, but undynamic labour markets.

Social policy

The Dutch welfare state of the sixties and seventies can be considered the very model of the passive-compensatory type in the continental mould. It was financed through social insurance contributions, was based on a traditional family structure with a male breadwinner, entrusted the administration of social insurance to the social partners and made income compensation a priority over active employment policy (Visser/ Hemerijk 1998: 173). Out of this ‘Bismarckian structure’ the Netherlands, a welfare state latecomer, has developed since the mid-1950s into the most generous variant of the passive-compensatory welfare state model in the Western world. However, it was precisely the combined effect of the passive-compensatory structure and the welfare state’s generous entitlements and benefits that made the pathological cycle of ‘social security without work’ (Esping-Andersen 1990) more obvious in Holland in the eighties than anywhere else.

The invalid benefit was the core and symbol of this cycle. When it was introduced in 1973 the Social Ministry estimated that 200 000 people would have entitlement to it. In 1980 the number
stood at 660,000 and at the end of the eighties this increased to a point where almost a million people were incapable of work in a working population of just six million (Visser/Hemerijk 1998: 160). In less than a decade a cartel of interests comprising employers, employees, doctors, unions, and the government had formed. Employers circumvented business-related dismissals and replaced older employees with younger and more productive workers; employees ‘rationally’ used the generous compensation and made less of an effort to gain new employment; doctors and bureaucrats stretched the criteria for inability to work; unions served their clientele (‘insiders’); and it suited the government that invalids did not appear in the unemployment statistics.

However, the state was little more than an onlooker, as the invalid and sickness benefits were largely in the hands of the bipartisan self-administration of the social partners. As they (rationally) proved themselves unwilling to reform, the impetus to reform came from the government (the CDA/PvdA-coalition) that at the beginning of the nineties had identified the extremely low rate of labour market participation as the achilles heel of the welfare state and tax system. The decision to reform the invalid benefit (1991) was thus the important prelude to further reforms aimed at altering the passive-compensatory character of the Dutch welfare state. As a result of a bonus/penalty incentive system for employers, a tightening of the invalid criteria for employees, as well as the obligation for workers to accept ‘reasonable’, not just ‘suitable’, employment, in 1994 the number of those entitled to the invalid benefit dropped for the first time since its introduction (ibid.: 196). After 1994 the ‘purple coalition’ pressed on with welfare state reforms under the leadership of the social democrats. The reform of the sickness and unemployment benefits followed. There were essentially four reforms that accompanied the shift from passive to active welfare state: the introduction of financial incentives, limited competition through the opening up of the system for private insurers, moderation of the ‘moral hazard problem’ through tightening of entitlement criteria and controls, as well as stronger state control of the social security administration (Barth/Bauer/Lang 1997: 86).

In the 1994 parliamentary elections the reforming parties, the CDA and PvdA, were punished for their cuts to social security with the loss of a third or a quarter of their voters. In this respect the election results supported Paul Pierson’s thesis that drastic reforms of the welfare state are linked to a high electoral risk for the reformers (Pierson 1996: 145). However, the purple coalition’s persistence at once refuted two topoi of social science: first, that government action is primarily directed towards events in the electoral arena and, second, that the state is no longer capable of regulating and exercising control over complex societies. Even though the Dutch government did eventually implement the reforms together with its social partners, it first had to assert itself against the embittered resistance of interest groups, in particular the unions. Through the dominance of the social democrats, the coalition governments of the nineties succeeded in ‘restoring the shadow of hierarchy over the bipartisan organisation of Dutch politics’ (Visser/Hemerijk 1998: 206) and breaking up the interest cartel in the interests of the general good of society.
The strengths and weaknesses of the polder model

Strengths

Most of the macroeconomic pro-arguments outlined above in relation to New Labour also apply to the Dutch Partij van de Arbeid. In addition:

- pressure to enter the labour market has increased, but because of the more generous welfare benefits is still weaker and less bound up with strong social pressure than in Great Britain;
- the weaker pressure to accept employment is largely compensated for by an intelligent incentive structure that facilitates part-time work without thereby ‘punishing’ part-time workers in the area of social security entitlements.
- consensus politics ensures more stable support for the reforms within the population in the longer term; in addition it corresponds to the stated social democratic aim of stronger participatory inclusion of citizens, their organisations and civil associations in policy formulation;
- in contrast to New Labour’s policies, citizens enjoy more options and sovereignty with respect to how they manage their working time.

Weaknesses

- welfare state free riding has still not been sufficiently restricted, as the high number of invalid benefit recipients – without comparison internationally – attests to;
- the welfare state is still geared more towards securing a standard of living rather than survival, and thus retains its ‘middle-class bias’ that discriminates against the truly needy.

3.3 The (reformed) welfare state way: Sweden

In the 1960s and 1970s Sweden was regarded as the social democratic model (see, for example, Meidner/Hedborg 1984). The Swedish model was characterised by a largely universalist welfare state, full employment, the highest rate of female participation, a harmonised incomes policy that was integrated into economic policy, the strongest trade unions in the Western world, the highest tax burden in a society of astounding tax morals, and the highest level of state expenditure against the backdrop of a rate of economic growth slightly below the OECD average (Meidner/Hedborg 1984). The sociologist J. Israel (1978) rightly called Sweden a ‘social democratic-trade union-big business-complex’. Since the late-70s several pillars of the Swedish model have broken off or at least been considerably damaged: the harmonised incomes policy rooted in solidarity broke down
and national debt rose rapidly. Completely new, however, was that the former country of full employment slid into mass unemployment of 9.5% (1993). After reassuming office in 1994 the Swedish social democrats reacted with reforms. These will be briefly outlined here in the three policy areas.

**Fiscal policy**

Contrary to widespread misperception, during the so-called ‘golden era’ of the 50s and 60s the Swedish social democrats were already pursuing supply-oriented policies more strongly than ne-Keynesian fiscal policy (Merkel 1993: 195 ff). When the Swedish social democrats were reelected into office in 1994 the minority social democratic government was confronted with a budget deficit of 10%. A Keynesian policy of deficit spending was therefore unlikely not just for reasons of political tradition, but was also precluded by fiscal constraints that could not be ignored. The government thus therefore reacted in an almost perfectly anti-Keynesian way with a combination of tax increases and expenditure cuts. Success was not long in coming. In 1997 the budget deficit was reduced to 1.9% (Lindgren 1998: 84). The consolidating effect could be primarily traced back to three factors: in spite of restrictive budgetary policy, economic growth that had been negative between 1992 and 1994 had increased to 2.3% by 1997. Considerable increases in tax revenue were achieved at the same time as reductions in public expenditure, not least through reductions in many social benefits at the municipal level. Like almost all social democratic parties in the nineties the Swedish social democratic government declared both its programmatic and actual support for fiscal orthodoxy. Expenditure was now not be used as a way to stimulate demand in an attempt to smooth out the economic cycle.

On the revenue side, supply-oriented components were imposed. The tax burden on businesses was eased and there was a move away from direct income tax and towards indirect consumer taxes. The taxation system that during the sixties and seventies had been the most redistributive in the OECD lost much of its ability to redistribute in the nineties. At least in part because of the less redistributive character of the tax system, income differentials and income dispersion increased in the eighties and nineties\(^{20}\). They continue, however, to be some of the lowest internationally (Bart/Bauer/Lang 1997: 111).

**Employment policy**

An active labour market policy remains the most striking characteristic of the Swedish employment strategy. At 2.1% of GDP (1997) Sweden still spends more on its active labour market policy than any other country in the OECD. However, in the nineties this was successful to only a limited degree, as was reflected by the fact that unemployment advanced at the same time as expenditure for the active labour market policy increased. At least in practice, in the nineties the Swedish social
democrats have also moved away from the goal of the highest possible rates of workforce participation. Indeed, the high female employment rate is in decline. Discussion within the Swedish social democratic party about reducing working time (both working life and the working week) has gained momentum and the first measures in this direction have already been agreed upon at the tariff level – an innovation for Sweden (Lindgren 1998: 89). Moderate cuts to the unemployment benefit to on average 81% of the most recent net income still maintain the benefit at a level very high for international standards (Barth/ Baur/ Lang 1997: 109). The same is true for the cautious deregulation in the areas of working time, the lifting of the ban on private employment agencies. Unions’ veto right over the firms’ outsourcing activities has been weakened. The period of notice for dismissal in Sweden remains one of the longest in Europe. Despite the reforms mentioned, the Swedish labour market remains highly regulated.

Further flexibilisation of working time and employment contracts is currently coming up against the problem of hardened tariff fronts. Due to the breakdown of centralised wage negotiations in the eighties, a suitable arena for tariff negotiations no longer exists. A new kind of corporatist consensus as exists in the Netherlands is not yet in sight, and neither is the Swedish government able to take radical measures as the British government can. The labour market reform ‘jam’ in Sweden is unmistakeable and in comparison with Great Britain and the Netherlands, Sweden has fallen behind in the labour market.

Social policy

Despite supporting the universalist welfare state in principle, several measures have been passed by the minority social democratic government since 1994 that have begun to change the face of the Swedish welfare state. The most important are:

- moderate cuts in various monetary social transfers (mostly by 5%);
- the introduction of ‘waiting days’ in cases of sickness chiefly as a way around the worsening abuse of the working days Monday and Fridays;
- a ceiling of 75% of the wage has been set for replacement income in cases of sickness; health care continues to be guaranteed free of charge by state health services; excesses remain very low in international comparison;
- reductions in pensions: basic and additional pensions are increasingly being integrated into one pension that resembles the structure of the German pension system (Barth/ Baur/ Land 1997: 107); for the first time employee contributions are being introduced to finance pensions (equal financing via 18.5% of income); the development of a second, privately financed pillar of pensions has begun;
with 31.9%, Sweden continues to have more than double the rate of public sector employment as Germany, Great Britain and the Netherlands; in this area there are plans for limited reductions in the future, which would primarily affect female workers.

In general the reductions are primarily directed at monetary transfers and to a much lesser extent at the social services. The measures are aimed at strengthening employees’ individual responsibility and at cutting down on welfare state free riding. However, the reductions were made from a very high level and Sweden’s welfare benefits must therefore continue to be regarded as the most comprehensive in the Western world. The ‘model system change’ as claimed by the press or German conservative parties has not (yet) occurred in Sweden. Certainly, the Swedish welfare state remains further away from the liberal proponents of market-oriented marginal social security than almost all other states in the OECD. Necessary amendments were made in the nineties, but it is doubtful that these amount to a forced dismantling of welfare statism. The Swedish welfare state continues to be strongly rooted in citizens’ preferences. This is especially true for those women who have found jobs in the public welfare sector or who have been more easily able to enter the workforce as a result of social benefits. However, in the 1998 parliamentary elections the social democratic government had to pay for even these – internationally relatively moderate – welfare state reductions with massive voter desertion (above all by female voters) in the direction of the left socialists. Pierson’s ‘retrenchment risk’ seems to be realised more sharply in the political culture of the active welfare state than in the passive welfare state of the Netherlands. While the Dutch social democrats have overcome the short-term temptation of electoral rewards through their perseverance with the reforms, this test is still to come for the Swedish social democrats.

The strengths and weaknesses of the Swedish way

Strengths

- Sweden remains one of the most open national economies in the OECD and even during the deep economic crisis of the early nineties did not resort to protectionist measures;
- the supply of investors was improved through tax and social policy measures, so that the outflow of Swedish investment capital was reduced and the inflow of foreign direct investment increased;
- the welfare state has only been tinkered with at the edges; in addition, many of the measures aim to combat parasitic free riding and thus, among other things, also served to improve social justice and strengthen individual responsibility;
- the fight against unemployment remained the political priority; considerable resources were further set aside to fight unemployment;
- the level of legal and illegal tax evasion by the self-employed and the wealthy is lower in Sweden than in most European Union countries.

**Weaknesses**

- the decline in workforce participation rates, particularly for females, signals something of a shift away from the traditional social democratic goal of full employment with high labour force participation rates;  
- the decline in participation rates may lead to further difficulties in financing the heavily tax-based welfare state;  
- Sweden continues to have a below average growth rate compared to other OECD countries;  
- tariff fronts have been further hardened and no return to a concerted or harmonised incomes policy is in sight.

Restructuring of the Swedish welfare state has certainly begun and has already made considerable progress. Up until now it has proceeded less radically than in Great Britain or even than the Netherlands. While the welfare state continues to prevent poverty and minimise social risks, further labour market reforms must be undertaken if unemployment is not to become entrenched and if the kind of gap in social justice unknown Sweden’s workers’ society until the end of the eighties is not to emerge. In addition, failure in the area of employment would in the longer term endanger the financing of the passive-compensatory area of the Swedish welfare state.

### 3.4 The statist way: the Parti Socialiste Français

Of all the social democratic and socialist parties in Western Europe at the end of the 20th Century the Parti Socialiste Français appears to be the most strongly committed to a traditional statist policy. Indeed, the French socialists have remained statist in two senses:

- the institutional structure of France’s centralist political system, the weakness of interest groups, the embedding of the party in a left-wing coalition with communists and greens (Gauche plurielle), and France’s statist-republican political culture, all enable the party to retain strong hierarchical state policy control. In France ‘parallel governance structures’ or institutional veto actors are comparatively weak or do not exist at all.
- the Parti Socialiste promotes the state much more than its sister parties do. This is true for macroeconomic policy, as well as for industry, employment and social policy. This may be interpreted as particular loyalty to traditional social democratic policy goals, but will be paid for in the 21st Century with a lack of innovation vis-à-vis the challenges of economic globalisation and the individualisation of society.
Fiscal policy

However, even the French socialists have committed themselves to budgetary consolidation, to which they had turned by the mid-1980s (Merkel 1993: 323 ff). In the nineties the disciplined budgetary policy helped to force inflation below the EU average. In this sense since 1983 even the French socialists have no longer followed the classical Keynesian route. However, since it entered office, differences can be identified between the fiscal policy of the Jospin government and that of other social democratic governments. The socialist-led government’s finance policy stands out from the fiscal priority of budgetary consolidation that is so unmistakeable in the rhetoric and practice of the social democratic-led governments in Great Britain, Holland, Sweden and, since Lafontaine’s resignation, Germany. In contrast to the rhetoric of austerity of the German Finance Minister, Hans Eichel, Jospin talks of a mix of selective consolidation measures, price stability and support for the economic cycle (Handelsblatt 20.4.1999). Indeed, in 1999 the French economy proved itself as one of the economic motors of the European Union with 2.6% growth in GDP. The French left government strengthened the looming cyclical upturn not with massive demand side programmes, but with measured strengthening of domestic demand: through, for example, the 1997 increase in the minimum wage and the quadrupling of state transfers to families at the beginning of the school year (Uterwedde 1998: 227). On the expenditure side, acceptance of and adherence to the Maastricht stability criteria with respect to net new indebtedness was achieved not by cutting social expenditure, but through a ‘leftist savings policy’ (ibid. 228), comprising among other things some rearrangement of the budget at the expense of the defense area.

Divergence from the general trend within the OECD at the end of the nineties is more clearly visible in tax policy. While most countries, with the temporary exception of Sweden, cut tax, the French socialists cautiously and selectively raised certain taxes. This was the case particularly for company tax and for special taxes on income from financial investments. In contrast, those on lower incomes received tax relief. In addition, the French leftist government introduced a financial and social reform component into the tax system that aims to increase the competitiveness of businesses without reducing social benefits. Thus, income-related contributions to health insurance were almost entirely abolished, with the social security deduction from almost all forms of income, CSG (Contribution sociale généralisée), being correspondingly raised instead (ibid.). This means, first, a reduction in non-wage labour costs and with it an increase in the competitiveness of businesses, and, second, a partial fiscalisation of social benefits that more fairly incorporate not only wages, but also other forms of income (self-employed, capital income) into the financing of the welfare state.

The French socialists are also distinct from mainstream European social democracy in monetary policy. While they have accepted the economic and currency union in principle, they have however not accepted the European Central Bank’s full independence from democratically-
legitimated decision making structures, such as the European Council or the Council of Economic and Finance Ministers (ECOFIN). Similarly, they have not accepted an uncompromising monetarist course as advocated by the Dutch and the majority of German social democrats. The tendency is thus towards a less restrictive monetary policy that will be formulated as far as possible in cooperation with the European Central Bank and ECOFIN and will thus better coordinate economic policy.

**Employment policy**

It is in employment policy that the traditional, statist nature of French socialist politics most clearly comes to the fore. This was evident in the party’s first year in government in its plan for reducing youth unemployment. The goal is to create 700,000 jobs that are to be up to 80% state-financed. Of these alone 350,000 will be located in the public sector, a policy that would be unacceptable to New Labour, the Dutch social democrats or the SPD. The remaining 350,000 positions are to be created in the private sector with the help of state income subsidies. Further measures are (OECD Economic Survey 1998-99: France; Neumann 1998):

- the labour supply is to be reduced by the subsidising of further early retirement schemes;
- a general law has been passed to allow for the introduction of the 35 hour week, for whose forced implementation state subsidies are to act as an incentive;
- until now scarcely any measures have been implemented to deregulate the labour market, with one modest exception being the easing of termination of fixed-term contracts;

While the first two measures must be seen as traditional social democratic employment policy, the latter has turned out to be a small outlet for flexibilisation in an otherwise highly regulated labour market. However, this deregulated sector of fixed-term, low-paid and rarely socially safeguarded jobs has, particularly in the service industry, proved especially dynamic. If this development is sustained, a dual labour market with a highly regulated but stagnating sector and a deregulated yet dynamic segment with considerable social injustices could emerge as it has done in Spain.

**Social policy**

No innovative reforms are yet evident in the French welfare state. Apart from the partial fiscalisation of health insurance, the welfare state continues to be financed primarily through non-wage labour costs, paid overproportionally by employers. However, the socialist French government has cautiously tried to decouple social contributions from income and to finance the welfare state through taxation. Particular emphasis continues to be placed on the welfare state’s support of families, though they are now to be assisted in a more differentiated manner based on income and through state supplements. New areas of emphasis are the construction and renovation of apartments, particularly in the ghettos around the large cities. Education, training and schooling receive
particular emphasis in government policy, yet, as is the case with the German social democrats, this has not been sufficiently reflected in investment in education\textsuperscript{25}.

In a recent speech to the Socialist International Jospin (1999) consciously staked out the differences to the workfare concept of Britain’s New Labour government. The Socialist Party’s government has emphasised that the active social investment state is doubtless important, but could not replace the traditional welfare state in those areas related to the ‘aging of modern societies’: ‘We should not imagine that “workfare” will be the catch-all answer when entire geographical areas with no security, training, assistance, or jobs are crying out for vigorous state and private action’ (Jospin 1999: 5). However, in its policy and politics the party thus far lacks a convincing response as to how the social investment state and the traditional welfare state, the central investment state and the global markets, and the republican statism and the interest groups and civil associations can be united in a new dynamic and democratic balance.

**The strengths and weaknesses of the statist way**

**Strengths**

- the basic willingness to politically (in a democratically legitimated way) steer the economy in those areas where the market gives rise to social unjustified hardships is more prominent in the case of the French socialists than of the other social democrat-led governments in Europe;

- the French socialists of the Jospin Government currently show greater readiness than most social democratic governments to compensate for the loss of the ability to control the economy at the nation-state level by achieving better coordination of national policies within the EU\textsuperscript{26}. This applies especially to employment policy, to the European ‘economic government’ that should also exercise influence over the monetary policy of a democratically insufficiently legitimated European Central Bank, and to the strengthening of the ‘Social Charter’ and the ‘Social Protocol’ of the European Union;

- active labour market policy instead of blind faith that reduction in business, capital and income taxes will bring about long term job creating investment.

However, there is a downside to most of these merits, indicating that social democratic politics is not able to adopt certain unified and ideal instruments and policies, but must ponder trade offs given its own value preferences.
Weaknesses

- the maintenance of the status quo in the welfare state structures is convincing neither in view of its longer term financing and its discrimination of non-familial lifestyles, nor in its passive-compensatory structure that offers too few incentives to accept employment;
- the active labour market policy continues to rely much more strongly on the state subsidisa-
tion of work creation programmes, primarily in the public sector, rather than on negative and positive incentives for individual education and training; individual responsibility to ‘in-
vest’ in one’s own human capital is not sufficiently recognised and encouraged in either its economic or its emancipatory functions;
- protectionist tendencies still exist, particularly in relation to third countries outside the Euro-
pean Union.

The French socialists have so far proved astonishingly resistant to changes in the markets. The current Jospin Government considers this policy to be to a large extent legitimised by the majority support of voters. Backed by this democratic legitimisation the French leftist government administers the social and labour market status quo in a traditional manner. However, their recipes offer too few innovative responses to the problems of new at-risk social groups and marginalised classes in post-industrial society. It must be feared that further hesitation in implementing reforms will be have to be paid for later with correspondingly stronger cuts to the economic and social prosperity of precisely those weaker classes in society. This would be the classic case of an unintended unsocial consequence of apparently social government action.

4. Social Democracy’s way into the 21st century leads through Europe

Anthony Giddens’ “Third Way” vividly illustrates the limits of nation-state action in an age of global-isation. It must therefore seem particularly paradoxical that the New Labour Government under Tony Blair is the least inclined of all the social democratic governments to relinquish national pre-
rogatives in order to find effective responses at the supranational level to the social demands of globalisation. The possibilities for supranational and international regime formation are not suffi-
ciently explicated by Giddens and have been strongly neglected by New Labour. The European option for social democratic policy remains the blind spot in the conception of reform. The Third Way comes to an end just before the terra incognita of the European Union begins. In their diag-
nosis, the British Third Way theorists show more clearly than most other social democratic parties the new restrictions on action at the nation-state level. Nonetheless they draw no lessons for strat-
egies as to how to regain the lost national arena at the European level.
Here, I therefore want to go several steps further along the Third Way and scrutinise the possibilities as well as the sense of social democratic cooperation at the European level. I will examine this from two perspectives:

- In which policy areas can and should social democratic governments find a common denominator within the European Union at the beginning of the 21st Century?
- Are the decision-making structures of the EU (Council, European Parliament, Commission) in combination with nation-state institutions suited to a harmonised social democratic politics?

Both questions will briefly be considered in the four policy areas of fiscal, monetary, employment and social policy.

**Fiscal policy**

All social democratic governments had turned to a policy of budgetary consolidation by the end of the 1980s. There are currently no signs that they want to use the European arena for a coordinated policy of fiscal demand stimulation. However, the leftist governments of Italy and France in no way interpret the fiscal stability criteria of the Maastricht treaty in full accord with the orthodox-fiscal spirit of the EMU ‘Growth and Stability Pact’. This approach is not shared by the other left-wing governments such as those in Britain, the Netherlands, Denmark and, since Lafontaine’s resignation, Germany. These governments would not only reject a coordinated demand policy through the European Union, but would also pressure for strict adherance to the stability criteria in EMU member states.

However, even if there were social democratic consensus for a new form of ‘Euro-Keynesianism’, there would be little hope that such a policy could be effectively implemented. A central problem would be that of timing; specifically, a targeted implementation of an anti-cyclical European demand policy. Due to the European Union’s complicated multi-level decision making procedures the periods of decision making and implementation would be too lengthy. The danger of belated pro-cyclical intervention in the economic cycle would be even higher in the European context than is already the case in federal polities. The EU does not currently have sufficient resources to pursue a fiscal policy of its own, nor is it likely to have these in the foreseeable future. A demand policy launched at the European level is for these reasons neither probable nor likely to be effective.

There does, however, appear to be more willingness among social democratic governments for European coordination on the revenue side; i.e. in taxation policy. From a social democratic perspective there would seem to be a greater need to reach agreement here so as not to be drawn into a ‘tax-dumping’ race for reasons of national competitiveness. However, the history of the past ten years shows how difficult it is to harmonise or even simply coordinate national tax policies with-
in the EU. There has been particular resistance from the Blair government to more closely coordinated tax policy. On the other hand, France, Germany and Austria have displayed increased willingness to pursue harmonisation in the area of tax policy. The social democratic-led Danish, Swedish and Finnish governments are also likely to be in favour of European coordination of taxation, as it is these highly-taxed welfare state countries that have the most to fear from each new round of ‘tax-dumping’. However, this fear has so far clashed with the pronounced Scandinavian tendency to protect their nation-state prerogatives as far as possible. The coordination of tax policy within the EU remains a worthy and realistic social democratic goal, but one which has thus far been too little pursued in practice.

Monetary policy

With the EMU taking effect and the establishment of the European Central Bank (ECB), since 1999 the eleven EMU member states have centralised their monetary policy. The institutional structure of the ECB and the philosophy behind it has committed the European Central Bank to a policy of price stability. However, here there is – to varying degrees – willingness among the leftist governments of Europe to relax this rigid monetarist policy. This is particularly the case when, as at present, there is no current inflationary pressure and there exists the danger of economic downturn promoted by monetary policy. However, the willingness does not extend so far as to instrumentalise monetary policy in a neo-Keynesian manner so as to achieve anti-cyclical evening out of the business cycle. However, there is a clear tendency to add to the goal of price stability the aims of growth and employment as equally important parameters in monetary policy. This would tend to be less restrictively construed in the direction of a less rigid control of money flows, as has been successfully practised by the US Federal Reserve Bank in the 1990s. From this perspective the European Central Bank and the monetary union appear to provide a stronger chance to support the more strongly growth and employment oriented social democratic economic policy than was previously the case under the largely European dictates of the German Bundesbank. However, even this possibility must be more strongly utilised by the social democratic governments than has so far been the case. In particular, the German red-green government will have to examine and ‘social democratise’ its uncritical adoption of the conservative dogma in monetary policy. In this the French leftist government would be a powerful partner.

Employment and labour market policy

The greatest convergence among the social democrat-led governments around launching a common economic policy within the European Union seems to be in labour market policy. Here there is broad consensus for reviving the 1993 employment programme of Jacques Delors, though this is still resisted by the British Labour government and the Dutch social-liberal government. However,
so that such a policy would not be acting solely in the area of regulation or deregulation, but would also include an active labour market policy, member states would need to allocate more resources to the European Union or undertake substantial restructuring of the EU budget. Potential exists here in the area of agricultural expenditure. However, this would require a political will that by no means exists uniformly across the social democratic governments.

The Amsterdam Treaty and the employment guidelines subsequently passed so far constitute only a framework, albeit a perfectly sound one, that must be fleshed out with concrete measures. The move from persuasive guidelines to convincing employment measures must be made more decisively than it so far has been. In European employment policy the social democrat-led governments would demonstrate that the loss of options for national control through globalisation can be regained at the European level. In addition, they could use this genuinely social democratic policy area to sharpen their political profile with respect to the conservative and liberal parties.

Social policy

Social policy can be separated into regulative and redistributive policies (Schmidt 1998). Up until now the latter was completely left over to member states’ national political arenas. There currently appears to be neither the possibility nor the will among the social democratic governments to organise a common redistributive social policy at the European Union level. There appears to be no realistic possibility of developing in the near future such a policy that would simultaneously meet the welfare needs of Portugal on the one hand and Denmark on the other. The levels of expenditure and the institutional heterogeneity among the welfare systems of the member states currently preclude effective social policy coordination (Scharpf 1998: 161). Further, according to the European political formula of settling on the lowest common denominator, policy coordination would lead to either a simple framework for organisation at the nation-state level or reduction in the welfare state in those countries with highly developed welfare systems. However, there are better social democratic arguments and chances for enforcement in the regulatory dimension. The ‘social chapter’ of the Single Europe Act (1986) and the Maastricht Treaty’s ‘social protocol’ were finally signed by the Labour government in 1997. These regulations principally relate to minimum standards for collective employment rights, security in the workplace and for the participation of European Works’ Councils.

However, even in these ‘non-material’ socio-political issues ‘social dialogue’ within the European Union has struggled to develop. As all of these decisions have to be viewed as either encouraging or hampering investment, the social democratic governments are also willing to only a very limited extent to concede national sovereignty to the European level. Moreover, these social policy issues outlined continue to require unanimous decisions in the Council, and here there has so far appeared to be little willingness on the part of the social democratic governments to alter the
unanimity rule. The veto positions aimed at retaining the institutional status quo are likely to pre-
vent any quick progress being made in this area. The social democratic governments of the mem-
ber states with highly developed welfare states would be well advised not to rashly give up welfare
controls at the national level, for even a middle-term ‘recapturing’ of control in the European arena
currently seems unpromising.

The question of how and to what extent social democratic governments can utilise the European
Union as a political arena that offers them additional opportunities to exercise political control over
the markets requires more detailed analysis. However, preliminary consideration shows that,
though to a lesser extent in fiscal and distributive social policy, scope for action at the supranational
level both makes sense and could be realised in the fields of taxation, employment and
monetary policy. It is thus astonishing that neither social democratic programmes nor political ac-
tion has sufficiently ‘discovered’ this European space for social democracy. Here there exists a
pressing need for policy and action by the social democratic parties and governments, for the win-
dow of opportunity opened by social democratic participation in twelve EU member states at the
end of the 20th Century could just as quickly close again in the 21st Century.
The metaphor of the ‘Third Way’ is of course much older and is by no means the exclusive preserve of Europe’s social democrats. It was not only used by the Austromarxists in the 1920s, by the Socialist International in 1951, by the Swedish social democrats in 1990 and by the advisors to Bill Clinton, but was also used by the Italian fascists to characterise a path between Bolshevik Communism and democratic liberalism, as well as by Pope Pius XI to distinguish between collectivism and unrestrained individualism.

Apart from structural defects and the conviction that it erodes the work ethic, there are two other reasons for New Labour’s view that reforms are needed: first, because the ‘old welfare state’ burdens “national” business in a global economy; and, second, because tax payers are less and less prepared to pay for unproductive social transfers.

The critique that Giddens’ emphasis on duties and responsibility to society is directed not towards the rich and powerful (they have done their duty), but towards welfare state dependents (Ehrke 1999: 20) is thus polemic, wrong and untenable.

In Sweden this also functioned only as long as a collective work and community ethic prevented the abuse of welfare benefits by rational free-riders (above all in the 50s and 60s). The reforms of the Swedish welfare state in the 1990s are aimed at eliminating the increasing level of free riding without endangering the ideals, core and substance of the welfare state.

I would like to thank my student assistant Christian Henkes for his research, suggestions and criticism in this chapter.

Even after a year in office no comparably clear profile can be identified in the red-green governing coalition in Germany. Constrained by an institutional set up that forces compromise, the New Centre is in many respects still moving along the ‘centre path’ (Schmidt 1990) that has consistently shaped the policies of federal governments in recent decades.

Despite its obvious importance, monetary policy is not taken into consideration, because, with the exception of Great Britain and Sweden, it is determined by the European Central Bank for all countries under study.

The consideration of the strengths and weaknesses is based on an elaborated version in the positioning paper ‘Dritte Wege - Neue Mitte’ by the ‘Grundwertekommission beim Parteivorstand der SPD’, for which I am responsible.

Nonetheless, on its first day in office the Blair Government gave the reserve bank responsibility for making operating decisions about interest rate settings.

Nevertheless, the number of those living below the poverty line in spite of earning a working wage is considerably higher in Great Britain than in most countries in the European Community.

The rate of female participation also continues to lag noticeably behind the European average.
12 All figures are from the OECD Employment Outlook June 1999.

13 With the education and training offensive the new Labour Government also made an effort to close the productivity gap existing between it and the EMU countries.

14 It was always one of the most important strategic arguments in favour of the universalist welfare state in Sweden that as many people as possible should benefit from it so that it would also be in their own interests to retain it (see, for example, Esping-Andersen 1985).

15 In Great Britain the reforms were mostly implemented by the governments of Margaret Thatcher and John Major and simply accepted by the Blair Government. The Blair Government’s reform policies were therefore able to build on a much more deregulated economic and social system than the Dutch social democrats were able to do post-1989.

16 The positive employment record thus began well before the social democrats returned to power (1989), but was extraordinarily successfully continued by them.

17 The price of this, however, was productivity growth slower than the OECD average (as in the USA) (Visser/Hemerijk 1998: 45).

18 This more just distribution relates both generally to insiders’ and outsiders’ opportunities for participation in the labour market and, specifically, to the gender-specific distribution of jobs.

19 The even more comprehensively developed Swedish welfare state rests more strongly on the principles of universalism and financing through taxation and is therefore considered as part of another welfare state category (cf. Esping-Andersen 1990; Schmidt 1998).

20 At the beginning of the 1980s Sweden had the smallest level of after-tax income equality in the entire OECD (Merkel 1993: 168).

21 Since 1997 Norway (75.6%) has replaced Sweden (74.5%) as the OECD country with the highest rate of female employment. In 1997 Germany had a female employment rate of 61.4% (OECD Employment Outlook June 1998: 193).

22 Measured against the import/export share of GDP this was already the case even at the peak of the ‘Swedish model’ in the 70s.

23 The participation rates in Sweden remain among the highest in the European Union, although they have in the meantime been overtaken by Denmark and Great Britain.

24 See Maravall 1997 for discussion of the development of the Spanish labour market.

25 This is particularly so in those social democratic (co-)governed countries in which the dilettantistic-symbolic democratisation and state control of tertiary institutions cannot hide the absence of additional investment.
This is even more remarkable, given that in the past the ‘national’ was continually given priority over the ‘social’ in the French EU policy, even among socialist governments.

Great Britain is still not a member of the EMU. Blair has tied entry into the EMU, which he has advocated, to the result of a referendum.

Consider, for example, the experiences of the German SPD/FDP-government at the end of the 1970s (Scharpf 1987).

This is particularly true for Sweden and Denmark.
**Table 1: Average electoral results of socialdemocratic parties in national elections (in %)**

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**Sources:**
- [http://www-public.rz.uni-duesseldorf.de/~nordsiew](http://www-public.rz.uni-duesseldorf.de/~nordsiew)

**Note:**
The following parties are included: Belgium: BSP/PSB; Germany: SPD; Denmark: SD; Finland: SDP; France: PS; Greece: PASOK; United Kingdom: LP; Ireland: ILP; Italy: PSI/PDSI resp. PDS; the Netherlands: PvdA; Norway: DNA; Austria: SP
**Table 2: Governmental power resources of socialdemocratic parties (power score)**

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<td>2,69</td>
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</table>

**Sources:**
http://www-public.rz.uni-duesseldorf.de/~nordsiew

**Calculation of power score:**
- 5 points: socialdemocratic Single-Party-Government
- 4 points: socialdemocratic Single-Party-Minority-Government
- 3 points: socialdemocratic party as dominant partner in governmental coalition
  or socialdemocratic party as dominant partner in a Multi-Party-Minority-Government
- 2 points: socialdemocratic party as equal partner in a grand coalition
- 1 point: socialdemocratic party as junior-partner in a coalition
- 0 point: socialdemocratic party in the opposition

**Note:**
Only parliamentary governments took into consideration (Greece since 1974, Portugal since 1976, Spain since 1977).
Literature

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Merkel, Wolfgang (ed.1994): Entre la modernidad y el postmaterialismo. La socialdemocracia europea a finales del siglo XX, Madrid.


List of Abbreviations

PvDA  Partij Vande Arbeid
OECD  Organization for Economic Cooperation and Development
GDP   Gross Domestic Product
ECOFIN European Council or the Council of Economic and Finance Ministers
EU    European Union
CDA   Christian Democratic Action
EMU   European Monetary Union
SPD   Sozialdemokratische Partei Deutschland
ECB   European Central Bank