

# **Social Democracy in Power**

**The capacity to reform**

**Wolfgang Merkel, Alexander Petring,  
Christian Henkes, and Christoph Egle**



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Globalization, European integration, and social change have devaluated traditional social democratic policy instruments. This book compares and explores how social democratic governments have had to adapt, and also whether they have successfully managed to uphold old social democratic goals and values in the light of these challenges.

This volume examines the policy measures of social democratic parties in government in a comparative framework. The authors focus on traditional social democratic goals and tools, in particular, fiscal, employment, and social policy, in the United Kingdom, France, Germany, the Netherlands, Sweden, and Denmark. They identify three policy patterns in social democratic governments: traditional, modernized, and liberalized social democracy and provide a comparative account of the explanatory power of the national context for policy adopted by social democratic parties.

Although in some cases differences in policy and performance between the six governments correspond to the programmatic position of the social democratic party, they are primarily attributable – in this order – to the specific structure of national party competition, to the behaviour of trade unions, and to institutional veto points.

This book will be of interest to students and scholars of politics, comparative politics, European studies and public policy.

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# Preface

By the end of the twentieth century social democracy began a remarkable and surprising return to power. Most of the countries of the European Union were governed by social democrats and social democratically dominated coalitions. For the first time the three largest countries in Western Europe (Germany, France and Great Britain) were simultaneously ruled by social democrats, socialists and their allies. The “magical revival” of social democracy took place against the background of the “third way” debate. The third way was launched to modernize social democracy leading it between old-style social democracy and the neoliberal market fundamentalism into the twenty-first century. The third way was above all an endeavor to respond to globalization, individualism, and the information society without displacing the traditional goals of social justice and solidarity. Anthony Giddens even argued that the third way represents the only effective means to materialize the traditional social democratic goals in a global age.

How did social democracy react to these new challenges? Did it follow third way policy proposals and was there indeed only one third way? And, if the social democrats followed Giddens’ advice on the third way, were they able to pursue their goals successfully or did they simply continue the “neoliberal” policies of their predecessors? And what happened to the traditionalists, those who did not believe in a third way between neoliberalism and old-style social democracy? At the turn of the century, Western Europe turned out to be an extremely interesting laboratory to answer these questions, since social democratic parties with different traditions, programs, coalitions, perspectives, and personnel took over the reins of power.

*Social Democracy in Power* is the first book since the mid-1990s to offer encompassing comparative empirical studies of the politics and policies of such different parties as New Labour, the French socialists, the Dutch Partij van de Arbeid, the Swedish, Danish, and German social democrats. The volume presents rigorous comparative analyses combined with single country studies. It is the outcome of the extensive research project “Social democratic answers to integrated markets – third ways in comparison” funded by the German Research Foundation (DFG) and conducted at University of Heidelberg and the Social Science Research Center Berlin (Wissenschaftszentrum Berlin für Sozialforschung). It was first published 2006 as “Die Reformfähigkeit der Sozialdemokratie. Herausforderungen und

Bilanz der Regierungspolitik in Westeuropa.” The following book is a condensed and revised version of the longer German edition.

Our research benefited from the support of numerous colleagues, institutions, and conferences. Among them Thomas Meyer, Wolfgang Schroeder, Bernhard Weßels, Patrick Diamond, Roger Liddle, and Tobias Ostheim, who was a co-author of the longer German version. A very special thanks goes to John D. Boy and Lora Anne Viola for their translation.

# Abbreviations

ALMP	active labor market policy
AMS	Arbetsmarknadsstyrelsen (labor market board)
AOW	Algemene Ouderdomswet (Dutch public pension)
APA	Allocation personnalisée à l'autonomie (social benefits for long-term care)
ARP	Anti-Revolutionaire Partij (Dutch anti-revolutionary party)
ASA	Allocation spécifique d'attente (early retirement scheme)
ASS	Allocation de solidarité spécifique (unemployment benefits)
ASSEDIC	Association pour l'emploi dans l'industrie et le commerce (regional branches of the unemployment insurance)
ATP (Denmark)	Arbejdsmarkedets Tillægspension (supplementary pension)
ATP (Sweden)	Allmän Tillægspension (supplementary pension)
C	Centerpartiet (Swedish center party)
CBI	Confederation of British Industry
CD	Centrum-Demokraterne (Danish center democrats)
CDA	Christen-Democratisch Appèl (Dutch Christian democratic party)
CDU	Christlich Demokratische Union (German Christian democratic party)
CEC	Contrat emploi consolidé (community work contracts for long-term unemployed)
CES	Conseil économique et social (economic and social council)
CES	Contrat emploi solidarité (community work contracts)
CFDT	Confédération française démocratique du travail (French moderate labor union)
CGT	Confédération générale du travail (French left-wing labor union)
CHI	Commission for Health Improvement
CHU	Christelijk Historische Unie (Dutch Christian historical union)
CMU	Couverture maladie universelle (universal health insurance)
COR	Conseil d'orientation pour les retraites (pension advisory council)
CPB	Centraal Planbureau (Bureau for Economic Policy Analysis)

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CPNT	Chasse, Pêche, Nature, Tradition (French agricultural party)
CSG	Contribution social généralisée (social security tax)
CSU	Christlich Soziale Union (German Christian social party)
CTSV	College van Toezicht Sociale Verzekeringen (independent oversight organization for social security)
CWI	Centra voor Werk en Inkomen (Center for Work and Income)
D66	Democraten 66 (Dutch left liberal party)
DF	Dansk Folkeparti (Danish people's party)
DGB	Deutscher Gewerkschaftsbund (German trade union confederation)
DIT	dual income tax
DKK	Dansk Kronor (Danish currency)
DL	Démocratie libérale (French liberal party)
DM	Deutsche Mark (German currency)
ECU	European Currency Unit
EL	Enhedslisten – De Rød-Grønne (Danish unity list – the red-greens)
EMU	European Monetary Union
EPL	employment protection legislation
FDP	Freie Demokratische Partei (German liberal party)
FN	Front national (French right wing extremist party)
FNV	Federatie Nederlandse Vakbeweging (federation of Dutch trade unions)
Fp	Folkpartiet Liberalerna (Swedish liberal party)
FRP	Fremskridtspartiet (Danish progress party)
GDP	Gross Domestic Product
GL	Groen Links (Dutch green party)
ISF	L'impôt de solidarité sur la fortune (wealth tax)
JSA	jobseeker's allowance
KAS	Kontant Arbetsmarknadsstöd (tax-financed unemployment benefit)
KD	Kristdemokraterna (Swedish Christian democratic party)
KF	Konservative Folkeparti (Danish conservative people's party)
KRF	Kristeligt Folkeparti (Danish Christian people's party)
KVP	Katholieke Volkspartij (Dutch Catholic people's party)
LCR	Ligue communiste révolutionnaire (French Trotskyite party)
LISV	Landelijk Instituut Sociale Verzekeringen (National Institute for Social Insurance)
LO	Landsorganisationen i Sverige (Swedish trade union confederation)
LO	Lutte ouvrière (French Trotskyite labor union)
LPF	Lijst Pim Fortuyn (Dutch populist party)
M	Moderata Samlingspartiet (Swedish conservative party)
MdC	Mouvement des citoyens (French national republican party)

MEDEF	Mouvement des entreprises de France (French employers' association)
MIG	Minimum Income Guarantee
MINEFI	Ministère de l'Économie et des Finances (French Ministry of the Economy and Finances)
MNEF	Mutuelle nationale des étudiants de France (student health insurance)
MNR	Mouvement national républicain (French right wing extremist party)
Mp	Miljöpartiet De Gröna (Swedish green party)
MPC	Monetary Policy Committee
nABW law	nieuwe Algemene Bijstandswet (law on social assistance)
NEC	National Executive Committee
NHS	National Health Service
NICE	National Institute for Clinical Excellence
NMW	national minimum wage
NSF	National Service Framework
OECD	Organization for Economic Co-operation and Development
PCF	Parti communiste français (French communist party)
PCT	Primary Care Trust
PDS	Partei des Demokratischen Sozialismus (German socialist party)
PEMBA law	Wet premiedifferentiatie en marktwerking bij arbeidsongeschiktheidsverzekeringen (law on disability and sickness)
PFI	Public Finance Initiative
PPE	Plans d'épargne d'entreprise (company savings plans)
PPE	Prime pour l'emploi (negative income tax scheme)
PPESV	Plan partenarial d'épargne salariale volontaire (company savings plans)
PPP	public-private partnership
PRG	Parti radical de gauche (French moderate left-wing splinter party)
PRS	Parti radical-socialiste (French moderate left-wing splinter party)
PS	Parti Socialiste (French socialist party)
PSA (Germany)	Personal-Service-Agentur (public agency for temporary employment)
PSA (UK)	public service agreement
PvdA	Partij van de Arbeid (Dutch social democratic party)
REA law	Wet op de (re)integratie Arbeidsgehandicapten (law on reintegration of disabled workers)
RMI	Revenu minimum d'insertion (social assistance)
RPR	Rassemblement pour la république (French Gaullist party)
RV	Radikale Venstre (Danish left-liberal party)



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RVZ	Raad voor de Volksgezondheid en Zorg (Council for Public Health and Healthcare)
RWI	Raad voor Werk en Inkomen (Council for Work and Income)
S2P	State Second Pension
SACO	Sveriges Akademikers Centralorganisationen (Swedish confederation of professional associations)
SAP	Socialdemokratiska Arbetarepartiet (Swedish social democratic party)
SD	Socialdemokratiet (Danish social democratic party)
SEK	Svensk Krona (Swedish currency)
SER	Sociaal Economische Raad (Socio-Economic Council)
SERPS	State Earnings Related Pension Scheme
SF	Socialistisk Folkeparti (Danish socialist people's party)
SMIC	Salaire minimum interprofessionnel de croissance (minimum wage)
SP	Socialistische Partij (Dutch socialist party)
SPAK	specifieke afdrachtskorting (subsidies for welfare contributions)
SPD	Sozialdemokratische Partei Deutschlands (German social democratic party)
STAR	Stichting van de Arbeid (Labor Foundation)
SVR	Sociale Verzekeringsraad (Social Insurance Council)
TCO	Tjänstemännens Centralorganisation (Swedish confederation for professional employees)
TICA	Tijdelijk Instituut voor Coördinatie en Afstemming (Temporary Institute of Coordination and Adjustment)
TRACE	Trajet d'accès à l'emploi (internship and training program)
TUC	Trade Union Congress
UDF	Union pour la démocratie française (French centrist party)
UMP	Union pour la majorité présidentielle/Union pour un mouvement populaire (French union for the majority of the president/bourgeois party (former Gaullist party))
UNEDIC	Union nationale interprofessionnelle pour l'emploi dans l'industrie et le commerce (national unemployment insurance)
UVI	Uitvoeringsinstelling (private insurance agencies)
V	Vänsterpartiet (Swedish left party)
V	Venstre (Danish liberal party)
VVD	Volkspartij voor Vrijheid en Democratie (Dutch liberal party)
WAO	Wet op de arbeidsongeschiktheidsverzekering (disability insurance)
WFTC	Working Families Tax Credit
WIW	Wet Inschakeling Werkzoekenden (law on integration of jobseekers)
WRR	Wetenschappelijke Raad voor het Regeringsbeleid (Scientific Council for Government Policy)

WTC	Working Tax Credit
WW	Werkloosheidswet (unemployment insurance)
ZW	Ziektewet (sick pay)



# 1 Introduction

## **New challenges to social democracy**

The rise of Ronald Reagan and Margaret Thatcher in the early 1980s kicked off a chain of electoral success for conservative and neoliberal parties which was accompanied by a paradigm shift to supply-side economics. Prominent social scientists interpreted this success as the beginning of social democracy's irreversible decline. In 1983, Ralf Dahrendorf began a heated debate when he predicted the "end of the social democratic century." Many observers pointed out that the objectives, strategies, and policy devices of social democratic parties were no longer suitable for present-day economic, political, and social realities (for a summary, cf. Lemke and Marks 1992; Merkel 1993: 21–57; Piven 1991). Some scholars argued that neoliberal globalization and the European single market constrained the options available to social democratic parties (Huber and Stephens 1998; Moses 1994, 1995). Others held that serious challenges emanated from demographic changes, fiscal crisis of the welfare state, postindustrialization, and value changes (Beck 1994; Inglehart 1990, 1997; Pontusson 1995). As a consequence of these developments, some discussed an electoral dilemma whereby the prospects of social democrats at the ballot boxes and in party competition were systematically deteriorating (Przeworski 1985; critically: Kitschelt 1994, 1999; Merkel 1993).

Two decades later, at the turn of the century, the record of European social democrats appeared in a different light. In view of a series of remarkable electoral successes and the unparalleled dominance of social democratic parties in the governments of European Union member countries, some pronounced a "magical return of social democracy" (Cuperus and Kandel 1998). The thesis about irreversible decline seemed disproved. However, electoral successes alone could not determine whether social democratic policy options were still feasible, and therefore whether social democracy could avoid decline. Taken by themselves, the successes at Europe's ballot boxes said nothing about whether social democratic policies could still be implemented in times of globalization and individualization.

The social democratic variant of capitalism in the post-war decades was characterized by a mixed economy, Keynesianism, and a highly developed

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welfare state. The essential objectives of social democrats were to maintain a high degree of social security, to offset cyclical fluctuations in the economy, and to prevent economic inequality. Globalization and the market-driven “negative integration” of the European Union called these three objectives into question. Indeed, the “neoliberal project” (Hooghe and Marks 1999) has led to ideological, economic, and political changes in the past two decades that have affected social democratic policy making. Individual states were hardly able to pursue a policy of Keynesian demand management or macroeconomic coordination any longer. This is particularly true for the consequences of market integration – especially the global integration of financial markets but also the integration of goods and services markets – on economic policy. The liberalism of European market competition policies further narrowed the room for maneuver traditionally used by social democrats. Formerly effective policy instruments now seemed unavailable as adherence to traditional policy patterns ran the risk of causing problems in the labor market, deficit increases, tax evasion, and investment shifts (Dehejia and Genschel 1999). The possibilities for redistributive tax and wage policies were severely reduced. In addition, the welfare state came to be seen as a threat to economic productivity due to its redistributive and regulatory logic.

### **Social democratic responses**

These changes forced social democratic parties to adapt their policies and programmatic stances. Political adaptation can occur at the level of economic and social-policy strategies as well as at the level of core values and objectives. By changing strategies and policy instruments, parties can hope to attain their old objectives. But by altering core values and objectives, parties risk abandoning their central project – in this case the creation of a “just society.” It is not new for social democratic parties to revise their strategies, instruments, and even their objectives. In fact, the history of social democracy can be read as a process of adaptation to changing conditions (Merkel 1996; Sassoon 1996). Our main aim in the following analysis is to show how social democratic parties and governments responded to the changing conditions they faced at the end of the twentieth and the beginning of the twenty-first centuries. How extensive are the changes in the face of the challenges of the early twenty-first century? To what extent can old objectives be combined with new means? What are the new strategies and instruments? To what extent do the parties see globalization and European integration as a barrier? What are the consequences of all this for their electoral chances and for the social democratic project?

The processes of globalization and European integration affect all social democratic parties in the EU member states. However, the determinants of their actions differ considerably. National institutions, political culture, coalitions, intraparty decision-making processes, party competition and economic conditions vary from country to country, resulting in different opportunity structures for different social democratic governments. In this context, the new “revisionist debate” on the “third way” (Giddens 1998, 2001; Cuperus *et al.* 2001) caused a

critical evaluation of the theory and praxis of social democratic politics. Therefore we also ask, do these differences lead to different social democratic paths and result in different social democratic performances?

Our analysis centers on the question of whether it is possible under the condition of globalized and regionally integrated markets to regulate the economy in accordance with social democratic values and policy preferences. Thus, in contrast to research pursuing the question “Do parties matter?” we do not focus on differences between different party families. Instead, our interest is to explain differences *within* the family of social democratic parties. We analyze observable changes in the politics and policies of these parties to assess whether they imply a change in the social democratic project for a democratic, caring, and just society. We seek to discern country-specific patterns in economic and social policy and to identify variables that explain the differences in national policies. In our empirical analysis we also inquire into the extent to which social democratic governments made use of the opportunities they had.

### **Analytical approach**

Globalization, European integration and demographic changes all influence economic and social policies of social democratic parties in government. The pressures exerted by globalization and European integration are mediated by the national opportunity structures, as earlier comparative studies of social democratic policies have shown (Merkel 1993; Scharpf 1987). The institutional order, political culture, party competition, coalition pressures, intraparty decision making, legacies, and a number of economic variables form a “corridor of action” determining the costs and benefits of political options. These variables can be thought of as the first of two filters that mediate between the core values and objectives of a party and its policies (Elster 1979). The second filter, i.e. the set of feasible choices of strategies or policies, is determined by the party in accordance with its ideological position and cost-benefit calculations.

In our study, we trace the adaptation of the individual social democratic parties in their respective national opportunity structures, taking the specific historical and cultural peculiarities of the countries into consideration. The complex interdependence of dependent and independent variables, dynamic learning processes, and different adaptation paths cannot be modeled as a linear causal relation. Building on theoretically sound case studies, we follow an approach that places particular value on the systematic use of the same independent (explaining) variables.

### **Case selection**

Due to the interdependence of international challenges, national contexts (institutional and political variables), and actual policies, the only way we can adequately capture the revision of social democratic objectives and means is a two-step analysis: the first step is in-depth individual case study-analysis; this will

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be complemented by rigorous comparative case analysis in the second step. Our goal is to ensure variance between the countries despite the common challenges posed by globalization and European integration. Using a “most similar cases” design (social democratic governing parties in Europe), we select those cases with the highest variation on the independent variables. Accordingly, the four selection criteria we use are:

- variation in the intensity of challenges posed by globalization and European integration;
- maximum variation with respect to the national institutional setting;
- representation of different types of social democratic parties; and
- inclusion of parties that played a major role in programmatic discussions in recent years.

The first criterion is variation in the importance of globalization and European integration, which are often presented as common challenges (Scharpf 2000a: 21 sqq.). Differences in the size of a country and the openness of its economy mean that national economies are more or less exposed to international markets. This leads to fundamental differences in how a country is affected by globalization and integration, and influences what policies it will pursue (Cameron 1978; Garrett 1998; Hall and Soskice 2001; Katzenstein 1985; Rodrik 1998; Scharpf and Schmidt 2000a). For this reason, our sample includes large and small and more or less open economies. It also includes countries inside and outside the European Economic and Monetary Union.

The second criterion looks for variation in political-institutional settings. As discussed in comparative policy research (M. Schmidt 1997), particularly relevant here are the historically evolved institutional makeup of systems of social security, the institutional “barriers to majority rule” (Colomer 1996; M. Schmidt 2000), the power of institutionalized veto players (Tsebelis 2002), the role of trade unions and their special ties to social democratic parties, the configuration and codification of labor relations, the coalition composition, and the political legacy.

The third criterion builds on previous party typologies in order to adequately represent differences within European social democracy. In the early 1990s, four types of social democratic parties were identifiable: (1) the Labour type, (2) the pragmatic coalition type, (3) the welfare type, and (4) the Mediterranean type. These parties differ in the nature and extent of their relations to unions, their position in the leftist camp, their ideological stances, and their governmental power (Merkel 1993: 65 sqq.). Finally, we include the parties that have loomed large in programmatic debates in recent years.

Considering these four criteria, we drew a sample of six social democratic parties in government (see Table 1.1):

- the British Labour Party (LP);
- the Social Democratic Party of Germany (SPD);
- the French Socialist Party (PS);

- the Dutch Labour Party (PvdA);
- the Social Democratic Party of Denmark (SD); and
- the Social Democratic Party of Sweden (SAP).

Our sample contains three large countries with low economic openness (France, Germany, and the United Kingdom) that face different constraints from smaller economies. Half of our cases are members of the Economic and Monetary Union. The legacies vary from the United Kingdom, clearly carrying the mark of the preceding conservative governments, to Sweden, where the social democratic party remained dominant throughout the 1980s and 1990s. The composition of the coalitions in the countries under analysis also varies heavily. While the social democratic parties in the Netherlands and in Denmark formed a coalition with bourgeois or liberal parties, the German and French parties joined forces with other parties on the left. The role of unions, union density, and their relationship with social democratic parties also vary considerably. There are significant differences between the social-security systems in the six countries in our sample, and all three of Esping-Andersen's (1990) welfare state regimes are represented. The same applies for institutional variables – the six countries in our study are scattered across the entire spectrum of possible traits. Table 1.1 summarizes the independent variables for our study of social democratic policies in Europe.

The period under review starts in the second half of the 1990s – depending on when social democratic parties came to power in each case – and ends in the first years of the twenty-first century. Our study of the United Kingdom and Germany begins in 1997 and 1998, respectively; of the Danish case in 1993; of Sweden and the Netherlands in 1994; and of France in 1997. In each country we also look at the policies of the preceding government as an important part of the political legacy. We will have to consider whether decidedly conservative legacies, such as in the United Kingdom, left a more favorable inheritance for social democratic governments than the legacies of status-quo-oriented Christian Democrats in Germany or neo-Gaullist bourgeois coalitions in France.

In the remainder of this chapter we will present the traditional objectives and instruments of social democrats. In Chapter 2 we will analyze the central challenges to social democratic governments in the late twentieth century. In Chapter 3 we analyze the most important factors influencing social democratic policies: party structure, party competition, unions, political institutions, the structure of the political economy, and the political legacy of previous governments. These contextual factors make up the theoretical framework for our analysis of fiscal, labor market, and social policies in the six European countries which we pursue in Chapters 4–9. In Chapter 10, the results of the case studies are systematically compared, categorized in a typology, and contextualized in each national setting. Finally, in Chapter 11 we conclude by assessing the prospects for social democratic policies in the twenty-first century.



Table 1.1 National context of social democratic parties

<i>Country</i>	<i>Size</i>	<i>Economic openness<sup>a</sup></i>	<i>Member of EMU</i>	<i>Institutional pluralism<sup>b</sup></i>	<i>Composition of government</i>	<i>Welfare state regime</i>	<i>Type of social-democracy<sup>c</sup></i>
Denmark	Small	28.3	No	2	Coalition with bourgeois parties	Universalistic	Welfarist type
Germany	Large	21.7	Yes	4	Left-wing coalition	Conservative	Pragmatic-coalition type
France	Large	18.7	Yes	3	Left-wing coalition	Conservative	Mediterranean type
United Kingdom	Large	22.0	No	1	Single-party government	Liberal	Labor type
Netherlands	Small	49.8	Yes	2	Coalition with liberals	Universalistic-conservative hybrid	Pragmatic-coalition type
Sweden	Small	34.5	No	1	Single-party government	Universalistic	Welfarist type

Notes

a Export ratio (1995), OECD 2004b.

b Colomer 1996. Low scores indicate majoritarian structures, high scores pluralistic structures.

c Merkel 1993.

The scores relate to the mid-1990s – the starting point of our period of observation.

## **Traditional objectives and instruments of social democratic policies**

The history of European social democracy is the history of constant revision of its means and ends. After the European labor movement split into a communist faction and a democratic-socialist or social democratic faction at the beginning of the twentieth century, the continual deradicalization of social democracy has been favored by the “dialectic office seeking and ideological tempering” written into modern liberal democracy (Castles 1992: 322). In order to gain governmental power, social democratic parties have had to appeal to voters outside of the traditional labor constituency and enter into coalitions with nonsocialist parties.

In order to understand whether and to what extent the social democratic program underwent another revision in the late twentieth and early twenty-first centuries, we have to look into the past. The development of social democracy up until the end of the 1980s falls into three phases (Burnham 1996; Merkel 1996; Sassoon 1996). The first phase extends from the origins of the labor movement to the end of World War I, throughout which labor parties were in an opposition role. The second phase, from the end of World War I to the end of World War II (1918–45), is characterized by labor’s split into communist and social democratic parties, and by the participation of social democrats in government. The third phase goes from 1945 onwards and is defined by the Cold War and by the expansion of the welfare state. Two periods can be further distinguished within this phase: a so-called “golden age of social democracy” until 1973, and subsequently the supposed “age of decline.”

Has the reorientation in the 1990s, following the end of communism and phenomena like globalization and Europeanization, ushered in a new phase of social democracy? The recent discussion about social democracy’s “third way” (Giddens 1998), which we address later, provides a first indication of a new revisionism.

Some traits of social democratic politics, such as Keynesian economics, are not an end in themselves. Rather, they serve as means for the attainment of certain ends, particularly full employment and wage increases. New or altered policy instruments can either be traced back to new or altered objectives or to the pursuit of the same objectives under new conditions. For this reason, changes in program have to be distinguished from changes in particular policy instruments (Hall 1993). Peter Hall’s three analytic levels refer to readjustment of existing instruments (first-order change), use of new instruments to obtain existing objectives (second-order change), and a change in objectives or changed priorities (third-order change). Our analysis proceeds in these three steps: core values, concrete objectives, and strategies and means for the attainment of these objectives.

### **Social democratic core values: the legacy of enlightenment**

Social democratic values are based upon the French revolution’s slogan “liberty, equality and fraternity” (Giddens 1997; Sotelo 1987). The demand for democracy

follows from the anthropological premise that humans are born free and equal and are capable of self-determination and hence must not be arbitrarily constrained (Berki 1975: 27). Thus, democracy can be seen both as a means to attain liberty, equality, and solidarity and as an embodiment of these values and, as such, as an end in itself. Contrary to classical liberalism, social democracy holds that liberty and equality are only possible when solidarity (“fraternity”) unites the actions of individuals and when economic forces are not left to play themselves out but instead are organized in accordance with the core values of social responsibility (Meyer 1998: 20). The social democratic interpretation of liberty, equality, and fraternity requires that the state tames market forces and protects people from its undesirable consequences. In the Declaration of Principles of the Socialist International (Sozialistische Internationale 1951: 197), “equality” and “justice” are almost exclusively defined in economic terms. In this regard, the ideas of the French and American revolutions were even radicalized (Giddens 1997: 86). Even when those calls for the revolutionary overthrow of capitalism subsided, market regulation and adjustment of the economic system were considered vital to secure the core values of “equality” and “justice.”

### **Traditional objectives**

After 1945, the last social democratic parties jettisoned their early demands for revolutionary social and political change in favor of an unequivocal embrace of parliamentary democracy. Henceforth, they sought to act *within* the parliamentary system. Therefore social democrats had to win a large enough portion of the electorate in order to implement changes. According to Castles (1992), two thresholds are crucial to a party’s electoral success and participation in government. Starting with a share of about 25 percent of seats in parliament, a party can exert considerable influence on the formation of a governing coalition. With 40 percent or more, it can usually dominate a coalition or even form a single government. However, the pursuit of a high percentage of votes is seen by some as problematic for the party’s programmatic identity. Adam Przeworski goes so far as to argue that an inescapable “electoral dilemma” will challenge the survival of social democratic parties and politics:

Leaders of class-based parties must choose between a party homogenous in its class appeal but sentenced to perpetual electoral defeats or a party that struggles for electoral success at the cost of diluting its class orientation. This is the alternative presented to socialist, social democratic, labor, communist, and other parties by the particular combination of class structure and political institutions in democratic capitalist countries.

(Przeworski 1985: 102)

We contend that this fatalistic and deterministic prognosis of an irreversible electoral decline of social democratic parties is neither theoretically convincing nor empirically correct (Merkel 1992, 1993: 47 sqq.). Into the 1990s, social

democratic parties managed to hold sway over their traditional working-class voter base *and* appeal to new strata. Nevertheless, the programmatic challenge posed by this split electoral strategy persists and social democratic parties have to adapt their electoral strategies, programs, and policies to this particular challenge.

Economic aims always loomed large in social democratic manifestos, but up until 1945 social democratic governments' track record on the economy revealed a lack of a clear policy. Social democrats continued to grapple with how they could govern within a capitalist economic system until the "Keynesian revolution" provided a satisfactory solution (Burnham 1996). Although they stressed economic issues, social democrats always had an ambivalent stance on employment. On the one hand, they held that work gives meaning to people's lives, which is one reason why full employment became one of their chief ends. On the other hand, they viewed workplace exploitation as inseparable from capitalism. This ambivalence was reinforced by the social democrats' role as the "advocates of workers," that is, of the most at-risk group to experience unemployment. The significance of employment for social democrats meant that they had a special obligation to those who were unable to work or find work. Sick pay, old-age pensions, and unemployment insurance directly provided for these groups. But because the social democrats' conception of what it means to protect the individual from market forces went beyond the provision of a bare minimum, the welfare state became the primary aim of social democratic policies. The state, then, also had an obligation to provide a rising standard of living and decommodification.

State provision of goods and services—that is, their partial separation from market mechanisms—was thus aimed at ensuring equal rights and personal empowerment for all individuals regardless of their income or status (Esping-Andersen 1990: 46). In pursuit of equality, all social democrats sought to equalize the material conditions of life. The liberal interpretation of equality as "equality before the law" or "equality of opportunity" was insufficient for traditional social democracy. Even if formal opportunities were equal, the actual social selectivity was unacceptable (Crosland 1980: 150 sqq.). Thus, redistribution was not just a *means*; it increasingly became an *end* of social democratic politics. Egalitarianism—particularly the pursuit of material equality—was the uncontested point of reference for all social democratic politics (Berki 1975; Bobbio 1994: 82 sqq.). In traditional social democracy, the question of whether a blanket policy of redistribution and the pursuit of the highest possible degree of equality could clash with other objectives, e.g. the promotion of economic growth, was of secondary relevance.

In addition, social democratic parties pursued other objectives as well, which were not characteristic of typical social democratic politics. These included economic growth, stability of prices, and sound public finances. The differences between conservative, liberal, and center parties became apparent when these objectives began to conflict. The social democratic response has been to favor redistribution as long as the majority of voters did not have to bear too great a cost and the next election was not in jeopardy. Conservative parties reversed these two priorities and promoted redistribution only when it was not expected to conflict with economic growth (Boix 1998). From 1945 to the late 1980s,

these priorities changed little. Some new objectives have been added, however, including ecological, gender, and postmaterialist issues (Kitschelt 1994).

### **Strategies and means**

Due to the high level of abstraction, the core values and objectives of social democratic parties can easily be summarized. The task of summarizing the strategies, instruments, and policies is more difficult. Since the contexts in which social democratic parties govern differ in multiple ways, their strategies and instruments are more heterogeneous than their core values and objectives. The party system and party competition, the party's relation to trade unions, the socioeconomic structure, and the openness and competitiveness of the economy are some of the variables that lead to different "paths" (Clift 2004). Nonetheless, we are able to identify some general policies central to all social democratic politics.

### ***Social democratic economic policies***

Until the end of the "golden age," Keynesian economics was central to all social democratic parties' policies. Capitalism was acceptable to social democracy only if its crises could be forestalled and mass unemployment could be averted. Effective regulation of the economic processes of capitalism was the *sine qua non* of social democratic government (Scharpf 1987: 45). After social democrats had accepted the market for efficiency reasons, Keynesianism was expected to reconcile democracy and capitalism. The distributive orientation of an economic policy approach benefiting the wage earners dovetailed with a well-founded economic theory. Under Keynesianism, the special interests of workers of the lower social strata coincided with the common good (Przeworski 1985: 207). The "state arm" rather than the "invisible hand" was deemed able to lead an economy out of underemployment. Monetary and fiscal measures were designed to increase demand and raise the levels of productive output and employment. The most important instruments of Keynesian economic policy were expansive (or, in rare cases, restrictive) monetary, fiscal and wage policies, and currency revaluation. These instruments were not deployed in the same manner in all countries. In some of the countries where these instruments were implemented, however, conservative parties also embraced them.<sup>1</sup>

Keynesianism places complex demands of timing and coordination on state and nonstate actors and institutions. Wage policy is a case in point: its design influences demand and production costs, but it is generally not open to government intervention. Centralized, highly organized unions and a large public sector, which in some countries (e.g. Austria) is an established policy device of social democrats, can facilitate coordination. On the other hand, government's potential to shape fiscal and monetary policy is constrained by federalism and an independent central bank (Scharpf 1987).

The peculiarities of the 1973 economic crisis ("stagflation") posed a problem that conventional Keynesian demand management was unable to address. Social

democratic parties were faced with conflicting objectives: fighting inflation and ensuring full employment. Since the mid-1970s, the instruments of Keynesian demand management have proven increasingly inadequate for attaining social democratic objectives (Kesselmann 1996; Merkel 1993: 21 sqq.; Scharpf 1987: 294 sqq.). There are a number of reasons for this. The increased integration of markets made “Keynesianism in one country” impossible. Finally, the end of the post-war reconstruction era and its high growth rates, along with the monetarist paradigm shift in the 1980s, ousted all varieties of Keynesianism from governmental practice (Merkel 1993; Przeworski 1985; Scharpf 1987).

Sweden, however, is a special case in regard to economic policy. By the early 1950s it was relying on the so-called Rehn–Meidner model because Keynesian instruments had already proven inadequate.<sup>2</sup> The model, developed by the union economists Gösta Rehn and Rudolf Meidner, had little in common with the Keynesian-inspired measures in most other countries.<sup>3</sup> Instead, it combined a restrictive budget policy with an active supply-side policy, bolstered by a centralized moderate wage policy. The “solidary wage policy” was not oriented towards a company’s profitability and hence functioned as a “productivity whip” which drove unprofitable companies out of the market and made higher gains possible for the profitable ones. The reinvestment of these gains was supported by conducive government policies. In order to alleviate the social effects of this process, the state established an active labor market policy that provided support for jobseekers having to relocate or retrain. In its approach to creating a favorable investment climate and ensuring an ample labor supply, the government focused on the supply side. The preconditions of this model were centralized wage negotiations and wage restraints for the powerful trade unions. Their cooperation was rewarded by an expansion of the welfare state. Thus, owing to the particular economic situation in Sweden, supply-side instruments were used earlier than in other European states.

In the 1980s, supply-side instruments became dominant in economic policy throughout Europe. Carles Boix (1998) seeks to identify party-specific implementation patterns for the new economic policy paradigm. He distinguishes the supply-side economic policies of conservative and social democratic governments. The social democratic variant comprises increased expenditure for human and fixed capital. In this manner, social democrats seek to increase labor productivity and equity returns. By raising the productivity of low-skilled workers and by supporting structurally weak areas, social democrats hope to raise efficiency and competitiveness *and* contribute to rising wages and income equality (Boix 1998: 11). The required state subsidies pose two dilemmas. If taxes are too high, the electoral support of the middle stratum is in jeopardy and private investment propensity is reduced. If, on the other hand, taxes are too low, left-wing voters favoring redistribution are likely to be disappointed, and the investment strategy becomes difficult to implement. The second dilemma concerns the amount of state subsidies. A balance must be struck between social investments and social transfers. If investments come at the expense of transfers, the support of a segment of the voter base (especially low-skilled workers) is in danger. Maintaining the

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level of transfers while boosting social investments requires higher taxes, but this, again, puts the support of the middle-class at stake (Boix 1998: 44 sqq.). As is apparent, tax policy is a crucial, but ambiguous instrument of social democratic parties.

### ***Social democratic tax policy***

Taxes are important to attain the objectives of decommodification and redistribution because of the important role played by the state (Wagschal 2003: 260). Social democrats' greater use of investive and redistributive state capacities necessitates higher revenues. Several studies have demonstrated the correlation between social democratic governments and higher state revenues (Castles 1999; Huber *et al.* 1993). The degree of tax progression and the maximum tax rate have also been shown to parallel party politics (Garrett 1998: 89 sqq.). In contrast, the 1980s were a decade of dropping maximum tax rates and reduced progression in Europe's tax systems. Left-wing governments, however, were more hesitant in following this trend.

Business taxation presents an equivocal picture. Although many OECD countries lowered corporate taxes from 1980 onward, revenues remained more or less constant (Wagschal 2003: 278), mainly because the tax base was broadened concurrently. Counterintuitively, Garrett shows that the "left power index" is negatively correlated with the level of corporate income taxation (though this finding is weaker for the 1980s) (Garrett 1998: 87). At the same time, after a decrease in the early 1970s, consumer taxes contributed to the total tax volume at uniform levels. So the level of consumer taxes is positively correlated with left governments, which is surprising given the regressive effect of these indirect taxes.

### ***Social democratic social policy***

While the instruments discussed above were primarily intended to contribute to growth, full employment, and redistribution, the welfare state's first and foremost role is to mediate personal risks. However, the welfare state was never an exclusively social democratic project, and welfare institutions are not necessarily egalitarian. The historical "elementary forms" of the welfare state have distinct patterns of stratification. Thus, the liberal welfare state bases benefits on means testing, and the Bismarckian social-insurance state preserves existing status differences. The latter "conservative" welfare prevented the development of a homogenous group of wage earners by establishing numerous occupationally segregated social insurance programs (Esping-Andersen 1990: 32; Garrett 1998: 24). A predominantly social democratic welfare state focuses on individuals (in contrast to the conservatives' reliance on families and subsidiarity), provides universal benefits (in contrast to class- or status-specific programs), and institutionally ensures social rights over and above a minimum provision. This combination provides the core of social democratic decommodification (Esping-Andersen 1999: 78 sqq.). Furthermore,

social democrats have a clear preference for expanding the public service sector. This way of extending the welfare state, usually for reasons of labor market policy and gender equity, is indicated by the positive correlation of social democratic cabinet posts and the percentage of public employment (Siegel 2002: 60 sqq.).

Regardless of type, the growth of the welfare state seemed irresistible after World War II. Gradually a “welfare-state compromise” became widely accepted, forming the basis “from which all politics has to emanate in our part of the world” (Habermas 1990: 197, own transl.). Due to monetary restrictions, however, the expansion of the welfare state ended in the late 1970s. Governments relied less and less on the traditional welfare-state policies (Scharpf 2000b). Nonetheless, as left governments’ spending records up to 1990 show, social democrats long attempted to resist these restrictions. In particular, economies that are strongly integrated in the world market exhibit this tendency (Garrett 1998: 76 sqq.). Other studies suggest, however, that party influence on spending has weakened (Siegel 2002).

### *Corporatism as a social democratic device*

Corporatist structures are designed to improve the power position of the working class. Corporatism has even been titled “the highest stage of social democracy” (Jessop 1979: 207). From a traditional Marxist perspective it has been called a sell-out of the labor movement and an attempt by reformist social democratic parties to “tame” the working class (Panitch 1981). Normative evaluations aside, some converging interests between social democratic parties and the labor-union movement can be identified. First, it is easier to negotiate compromises when organized interests are included into the decision-making process. Second, the inclusion of the labor movement into the formulation and implementation of policy can be seen as an extension of the social democratic sphere (Hicks 1999: 150). In addition, the government is freed in part from the task of legitimating its power, since unions within corporatist structures are themselves involved in governance. Finally, social democratic parties are able to reproduce their organization by transferring political and economic resources to unions (Rothstein 1987: 307), and unions then reciprocally mobilize the electorate and provide financial support for social democratic parties. From a social democratic perspective, an integration of unions into economic policy is advantageous. Neocorporatism can even be seen as one of the necessary conditions for the success of social democratic economic policy during the post war period (Scharpf 1987: 221). Indeed, empirical studies have shown the codependence of social democratic government and corporatism (Garrett 1998; Hicks 1999; Weßels 1999).

However, the policy shift towards supply-side economics in the 1980s seemed to erode this connection. According to some scholars, neither the social democratic nor the conservative variant of supply-side economic policy depends on corporatist coordination mechanisms (Scharpf 1987; Boix 1998: 38). Others counter that new and more complex forms of corporatism have merely replaced the old structures (Hassel 1998, 2003), that social democratic, corporatist regimes are able to cope with twenty-first-century challenges (Garrett 1998), or that globalization posed



new problems that reconditioned corporatist structures were particularly well-suited to solve (Weßels 1999).

## Conclusion

It is fairly easy to render a coherent image of the objectives and instruments prevalent in the “golden age of social democracy.” In the 1970s, however, an ineluctable process began that transformed politics and policies, not exempting social democratic parties. These changes are visible within the single party family of the social democrats, albeit in a less striking way (Table 1.2).

In the early 1980s, a change in social democrats’ instruments became apparent. At this point, the limitations of the previous traditional macro-economic policy approach became evident, and the differences between social democratic and bourgeois governments’ tax policies began to lose their distinctiveness. Although the redistribution objective was not abandoned, it was supplemented by another, possibly conflicting, goal: budget consolidation. While these two objectives are not necessarily at odds with one another, the consolidation objective often trumps the previously dominant redistribution objective. In labor market policy, another second-order change emerged. Social democrats abandoned demand-side for supply-side instruments. No third-order change (that is, a change in objectives) has been observable. However, third-order change has become visible in social policy. Here, the decommodification objective has been partially substituted by

*Table 1.2* Revision of traditional social democratic objectives and instruments

	<i>Policy field</i>	<i>Fiscal policy</i>	<i>Employment policy</i>	<i>Social policy</i>
	<i>Basic values</i>	<i>Freedom, equality, solidarity</i>		
	Traditional objective	Redistribution	Full employment	Decommodification
1970s	Traditional instruments	Progressive tax policies; increasing public expenditures; Keynesian policies	Demand-side policies; public employment; employment protection legislation	Welfare state expansion; public services
	Incipient change of objectives	Consolidation weakens preference for redistribution	Still full employment	Trade-off between adequate social protection and decommodification
1980s	Starting modification of instruments	Dilution of tax-progression; reduced public spending; Keynesian policies abandoned	Acceptance of supply-side policies; contraction of labor force via reduced working hours and early retirement	Protection of status-quo