

Social Democracy in Power: Explaining the Capacity to Reform

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Zusammenfassung Dieser Artikel untersucht die sozialdemokratische Regierungspolitik in sechs Ländern vor dem Hintergrund von Globalisierung, Europäisierung und sozialem Wandel. Der Vergleich der Fiskal-, Beschäftigungs- und Sozialpolitik in Deutschland, Großbritannien, Frankreich, den Niederlanden, Schweden und Dänemark offenbart drei Typen sozialdemokratischer Regierungspolitik: modernisierte, liberalisierte und traditionalistische. Diese drei Typen korrespondieren zudem mit einer jeweils spezifischen Leistungsbilanz. Um die beobachteten Politikmuster zu erklären, werden institutionalistische und akteurszentrierte Ansätze diskutiert. Es zeigt sich, dass rein institutionalistische Ansätze nicht geeignet sind, das Ausmaß und die Richtung von Politikwandel zu erklären.

Schlüsselwörter Sozialdemokratie · Dritter Weg · Typologie · Policy Change · Parteienwettbewerb · Institutionalismus

Abstract This article gives an empirically founded answer to the question of whether classical political goals and instruments of social-democratic governments have been revised in view of the changes induced by the integration into global markets, Europeanization as well as social change. A comparison of fiscal, employment, and social policies of six social-democratic governments in Great Britain, France, Germany, the Netherlands, Sweden, and Denmark reveals three distinct types of social democratic governments:

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traditional, modernized, and liberalized social democracy. Each type corresponds to a certain pattern of policy outcomes. In order to explain these policy patterns, the explanatory power of institutional and actor-centred approaches are discussed. The results prove that institutional approaches alone do not explain the extent and direction of policy change.

Keywords Social Democracy · Third Way · Typology · Policy Change · Party Competition · Institutionalism

Introduction

Globalization, Europeanization, and the increasing heterogeneity of European societies have challenged the future of social democracy. During the 1980s, social scientists soon predicted its “decline” and irreversible “electoral dilemma” (Dahrendorf 1983; Przeworski 1985). Others stressed the ability of social democratic parties to adapt to the new circumstances (Kitschelt 1994) and to revise their strategies, instruments, programs, and policies (Scharpf 1987; Merkel 1993). The electoral triumph of many socialist and social democratic parties during the 1990s seemed to confirm the capacity of social democracy to revise politics and policies, thereby ensuring their electoral survival and success. This renewed advance to governmental power provided a sound empirical basis to test whether the electoral success of social democracy is only a consequence of the exhaustion of a neo-liberal cycle or whether the social democratic parties are able to pursue their traditional goals by adapting strategies, instruments, and policies to the new contexts. Which particular answers to the new challenges have social democratic parties found since the mid-1990s? What are the consequences of the revision or non-revision of their programs, instruments, and policies?

The article sets out to answer these questions.¹ Policy measures and outcomes with regard to fiscal matters, employment, and social policies of six democratic governments (United Kingdom, France, Germany, the Netherlands, Sweden, and Denmark)² will be compared against the background of the new challenges. The argument will be unfolded in four steps: First, the actual policy performance of the six social democratic governments will be examined. Second, a typology of social democratic parties will be developed on the grounds of their policy patterns. Third, specific policy trade-offs of the different types of social democracy will be discussed and, finally, the varying ability of social democratic parties to reform their traditional politics and policies will be explained against the background of structural constraints, party competition, and political action. The analytic benefit of small-n comparisons when following a theoretically disciplined approach of actor-centred structuralism will be highlighted.

¹ All the empirical results of this article base on a book on social democratic governments published recently by a small research team (Merkel et al. 2006).

² Apart from New Labour as well as the Swedish and Danish Social Democrats (minority governments), all the other social democratic parties have governed within different kinds of coalitions.

1. Performance

The performance of socialist and social democratic governments will be evaluated in three policy areas, which have always been crucial to social democratic policy-making: fiscal policies, employment policies, and social policies. For each of these areas we developed a comprehensive indicator, which contains two equally weighted components (Merkel et al. 2006). The indicators are as follows:

- Fiscal policies: national public debt and structural budget deficit;
- Employment policies: employment and unemployment rates;
- Social policies: social spending per capita and change of risk of poverty before and after social transfers.

Out of the three specific indices, a general performance index has been constructed in order to evaluate the overall policy performance. The performance will be analysed on two dimensions:

- Status (figures at the end of the incumbency or in 2002³ in relation to the arithmetic mean of the six countries);
- Change (country-specific changes between the beginning and the end of the incumbency or in 2002).

The aim is not to present actual policy outcomes, but to evaluate the relative performance of the six social democratic governments from a comparative point of view.

1.1 Fiscal Policy

If we look at status and change in fiscal policy, Denmark and Sweden perform the best by far. Both countries successfully consolidated their budgets by cutting expenditures while maintaining a high tax level. This is particularly true for personal income taxes and the value added tax (VAT). Corporate and capital taxes are exceptions. They were reduced in order to stop capital outflow, which had caused tremendous problems for Sweden's economy during the early 1990s. Great Britain and the Netherlands rank in the middle. They both succeeded in reducing the debt burden and budget deficits, mainly by curbing expenditures and reducing unemployment. Germany and France are the losers in the fiscal competition. Both countries failed (or in the case of France did not want) to curb expenditures and to stimulate economic growth by introducing tax reforms. A fiscal squeeze of rising expenditures and declining revenues led to the recurrent violation of the Maastricht rule to maintain the budget deficit below 3 percent. Particularly the reduction of income and corporate taxes to the benefit of the well-off in Germany failed completely to achieve the proclaimed end of stimulating investment, consumption, and economic growth. The policy of the Red-Green coalition to lower taxes was neither economically successful nor social democratic.

³ The period under investigation varies between the countries. It is determined by the time when social democratic parties took over governmental power in the 1990's and ends either in 2001 or 2002: Denmark (1993–2001), Sweden (1994–2002), the Netherlands (1994–2002), France (1997–2001), UK (1997–2002), Germany (1998–2002).

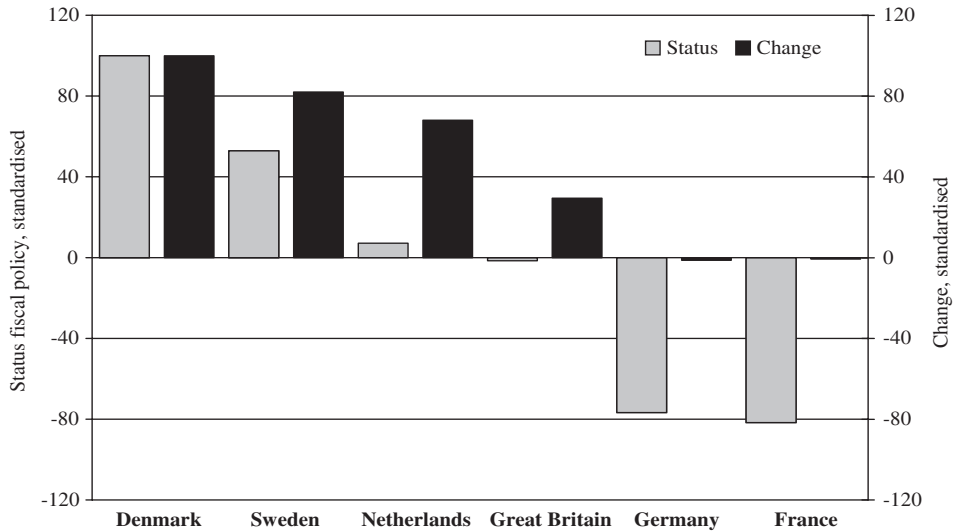


Figure 1 Performance in fiscal policies in comparison^a

^a In order to standardize the status of performance at the end of the governing period and the year 2002, the country-specific deviations in national debt and structural budget deficit in percent were calculated on the basis of (arithmetic) means of the six countries under consideration. From the beginning of social democratic governments until the end of their governing period, or the year 2002, the total sum of percentage point differences of both indicators was used in order to generate the indicator of change. The values have been standardized in relation to the maximum value on a scale between -100 and 100. In both cases, positive figures account for lower debts or deficits; negative figures signify higher debts or deficits. Governments under consideration are Sweden (1994–2002), Denmark (1993–2001), Germany (1998–2002), the Netherlands (1994–2002), France (1997–2001), Great Britain (1997–2002).

Source: Own calculations based on OECD (2001, 2003).

1.2 Employment Policies

When combining the two core indicators (rates of employment and unemployment) in order to calculate the performance index of employment policies, one attains the following results: The Netherlands performed best in terms of status and change. The creation of part-time jobs for women and migrants particularly contributed to the increase in employment and a decrease in unemployment rates. Even though the total number of working hours did not increase in the Netherlands, the reforms offered a particular chance for outsiders to enter the labour market. Surveys show that women in particular appreciated these new job opportunities. Next are the two Scandinavian states, followed by Great Britain. Germany performed the worst, closely followed by France, which, at least, showed some positive changes due to the fact that the government created jobs in the second labour, especially for young people. The performance basically replicates the pattern we have already seen with regard to fiscal policies - Germany and France performing the worst. The top ranks vary a bit in comparison: The Netherlands, Sweden and Denmark changed ranks. Great Britain started from a comparatively comfortable point of departure in 1997, but it was not able to improve its employment performance in the same way as the Netherlands or Denmark. Thus, its performance with regard to the

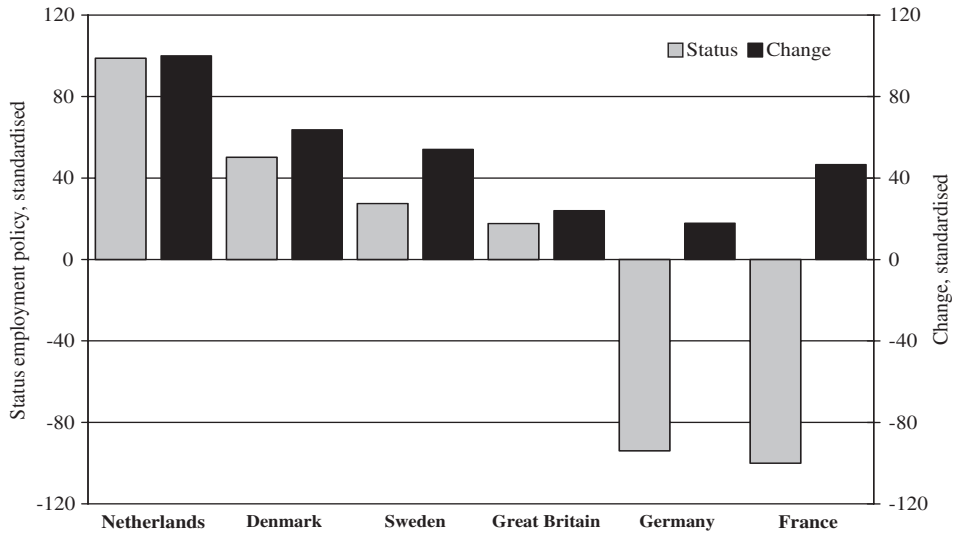


Figure 2 Performance in employment policies in comparison^a

^a For the calculation, see Figure 1.

Source: Own calculations based on Eurostat (January 2004).

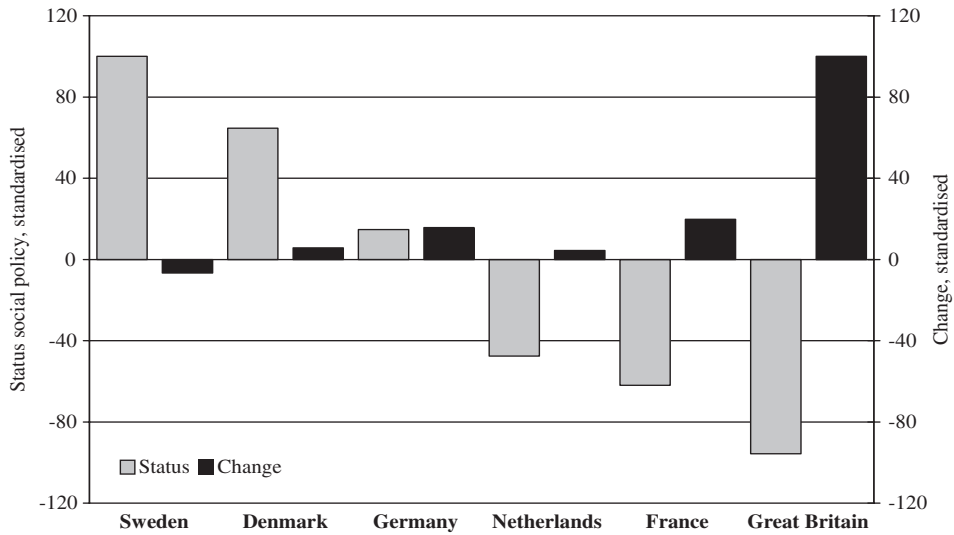


Figure 3 Performance in social policies in comparison^a

^a For the calculation, see Figure 1.

Source: Own calculations based on Eurostat (November 2004).

status of employment policies in 2002 is average. Hence, Great Britain again ranges in the middle of our sample.

1.3 Social Policies

The core indicators used in order to compare the performance in social policies are social expenditures per capita (*social spending*) (at constant prices in 1995) and the rate of change in risk of poverty before and after social transfers.⁴

In 2001, Great Britain maintained its status as the worst-performing country, although it performed the best overall (change) out of all the six countries during the period under investigation. New Labour increased social spending and moderately reduced the risk of poverty before and after social transfers. However, this did not suffice to reduce poverty and increase social security spending in the United Kingdom in order to meet the same level of social performance as in continental Europe, not to speak of Scandinavia. Nevertheless, during the three governments led by Blair, social policy (family allowances, education, poverty relief, activation, etc.) distanced itself from the neo-liberal Thatcher and Major years. As social democratic governments in Denmark and Sweden started out from an extremely positive position, these countries have not been able to achieve further progress. Sweden underwent a slight decline, even though its status in 2001 was still outstanding in comparison to other countries. While the Netherlands are neck-in-neck concerning the rate of risk of poverty after social transfers, they have significantly lowered the spending per capita for social security compared with the Scandinavian countries. Contrary to common expectations, France did not perform so well; however, visibly better than Great Britain.

When comparing the performance of the six countries, Scandinavia usually held the top position while France and Germany ranged at the bottom. Social policy performance proved to be an exception. New Labour did not bridge the gap to the other five countries. The overall pattern of performance did not change dramatically until 2005, even though Germany's performance declined during the last three years due to increasing poverty rates in the country, caused among other things by an increasing unemployment rate and the increasing rigidity of long-term unemployment.

1.4 The Overall Performance of the Six Governments' Different Instruments and Different Results

The first point of comparison is obvious: There was no visible congruence in policy outcomes. The common challenge of globalisation and Europeanization did not lead to common results. The ability to adapt to the new challenges obviously diverged largely among the six social democratic governments, but must be differentiated with regard to the respective policies. However, did the goals, strategies, and instruments diverge

⁴ In order to prevent a major influence of the variation in GDP on the rate of social contributions (social spending in percent of the Gross Domestic Product/GDP) with regard to the first indicator, one has to adjust social spending per capita to the level of inflation (cf. Schmidt 2001: 33). The second indicator (rate of change in risk of poverty before and after social transfers) covers effectiveness and efficiency of social security contributions with regard to the decline in the risk of poverty. This indicator is more significant for government performance (outcomes) than the traditional indicator "social spending" (output).

similar to the outcomes? In how far is there a relation between possibly revised instruments, strategies, and goals on the one hand and the actual achievements with respect to the fundamental social democratic values on the other hand?

A common trend can be observed with regard to fiscal policy. The majority of social democratic governments undertook great efforts towards fiscal consolidation and taxation sensitive to economic competitiveness. During the last two decades, fiscal consolidation advanced as a policy goal of social democracy under the pressure of Europeanization and globalization.⁵ However, the mode with which they pursued the goal of fiscal consolidation contained a unique policy mix with regard to the revenues and expenditures (Mulas Granados 2006). Denmark and Sweden did not succumb to the neo-classical temptation to cut expenditures and decrease taxes. They even increased the income taxes which were already high and maintained the high level of value added taxes. This was widely accepted by the citizens, who still prefer the Scandinavian tradition of high taxes and good-quality public social services over lower taxes and the privatisation of education, health, and social security (Rothstein 1998). The tax level set by New Labour was the lowest among the six countries. However, after two years in government the Blair government slightly increased expenditures for higher spending in education and particularly the National Health Service (NHS). The Netherlands cut both expenditures and taxes. These three different methods contributed to economic growth, employment, higher revenues, and sound public finances. In contrast to these successful strategies, Germany and France embarked on failing fiscal avenues. The German Red-Green coalition lowered corporate and income taxes, kept consumption expenditures high while squeezing investment spending. The French socialists increased taxes and (particularly consumption) expenditures. Both governments failed to consolidate their public budget.

With regard to employment, all parties focused on an active and activating labour market policy, but at very different levels and with different focuses. There is a common trend away from decommodification of labour (Esping-Andersen 1990) towards an increasing requirement for the unemployed to take on jobs if they want to prevent a reduction of their unemployment benefits. The willingness to provide labour as a commodity and to agree on market requisites (training, re-education) belongs to a manifestly post-traditional trend of social democratic labour market policy (Vandenbrouke 2001; Esping-Andersen and Regini 2000).⁶

The divergences between the six social democratic countries are particularly apparent with regard to their social policies. Reforms within this policy field are decisive in order to answer the question to what extent each social democracy, on the one hand, is able to adjust their fiscal policy successfully, for flexible labour markets and, on the other hand, to keep social security on a high level. The divergence of social policies ranges from an expansion of social security (PS), to minor and some more incisive reforms in the last year of government (SPD), to structural reforms and privatizations (PvdA) (Pierson 2001; Clift 2002; Hemerijck 2002). The policies of SAP and SD are located

⁵ Compared to full employment, economic growth, and social security, fiscal discipline had been only a secondary goal of social democratic policy-making throughout the first three decades after 1945 (Boix 2000).

⁶ However, this trend to consider work as a social duty, rooted in a protestant social democratic work ethic, has always been present in the Swedish employment policy since the 1950's, and is by no means an invention of the "Third Way" (Meidner and Hedborg 1985).

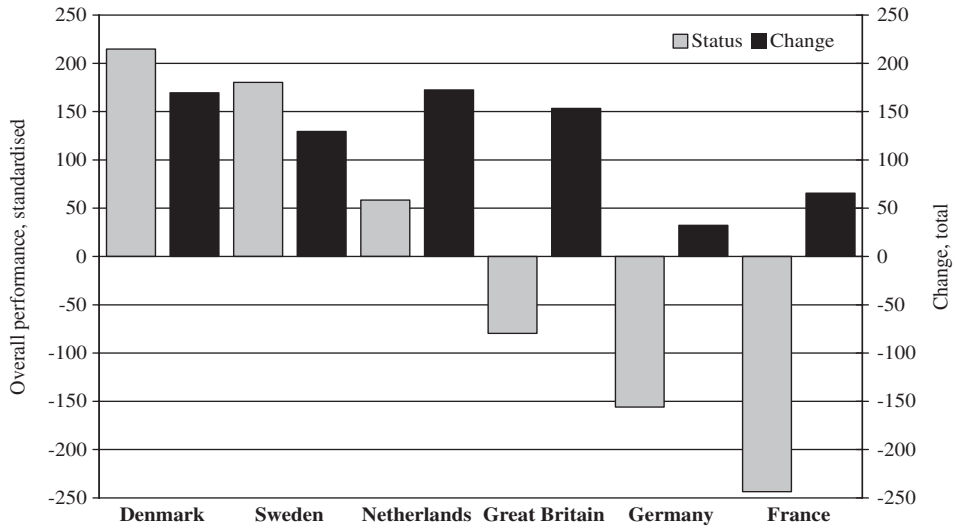


Figure 4 Overall performance of social democratic governments in comparison^a

^a In order to calculate the overall performance of social democratic governments, the total sum of country-specific figures of status and figures of change was used. Governments considered are Sweden (1994–2002), Denmark (1993–2001), Germany (1998–2002), Netherlands (1994–2002), France (1997–2001), Great Britain (1997–2002).

Source: Own calculations.

in between. In Great Britain, New Labour’s policies focused particularly on means to transfer benefits to selected groups (low-income families). Thereby, it controlled expenditures and, at the same time, enhanced selective social contributions. While the French socialists and the German social democrats continued to regulate the labour markets rigidly and maintained the passive social welfare expenditures at a high level, the Scandinavian social democratic parties, particularly the Danish, left their deregulated labour markets untouched and strengthened the activation and education measures within the welfare states. While the French and German social democrats stuck to the traditional policy of protecting jobs, the “flexicurity” of the Danish social democrats aimed at protecting the people.

The various measures led to different outcomes. Using the sum of the three specific outcome indices of the policy-domains under investigation, one can construct a general ranking of the social democratic performance in government.

When comparing the results of social democratic policies within the six selected countries, Denmark is in the lead. Sweden and the Netherlands performed above average. Denmark and Sweden in particular, demonstrate that the way out of high public debts, high budget deficits, and high unemployment does not necessarily have to be accompanied by a massive retrenchment of the welfare state and a retreat from the traditional goal of a fair and socially cohesive society (Vartiainen 2001; Palme et al. 2002; Steimo 2003). Great Britain under New Labour significantly improved its performance in all three policy fields examined here, but the overall result remains slightly below average due to the comparatively bad performance in the domain of

social policy. Unlike in the Scandinavian countries, the good performance in fiscal and employment policies from the mid-1990s to the beginning of the 21st century in the Netherlands is coupled with a less impressive performance in welfare policies (Visser and Hemerijck 1997; Hackenberg 2001; Hemerijck 2002). France and Germany are clearly at the bottom of our ranking. In both countries, the increase in debt and budget deficit did not lead to better outcomes in employment and social welfare. On the contrary, particularly in Germany the standards of social security could not be sustained in the medium run due to the anachronistic structure of the Bismarckian social insurance state facing the challenge of a dramatic demographic change (Merkel et al. 2006; Meyer 2007). The Red-Green coalition (1998–2005) did nothing substantially to change the conservative Bismarckian welfare state.

2. Three Types of Social Democracy

Can we find significant differences in the policy patterns, which allow us to construct a typology of social democratic parties on the basis those differences?⁷ We do think we can draw on Peter Hall's classification scheme of policy changes. Hall (1993) distinguishes between first-, second-, and third-order changes:

First order changes are the “process whereby instruments are changed in the light of experience and new knowledge, while the overall goals and instruments of policy remain the same” (Hall 1993: 278 f.).

Second order change occurs “when the instruments of policy as well as their settings are altered in response to past experience even though the overall goals of policy remain the same (ibid.).

Third order changes entail “simultaneous changes in all three components of policy: the instrument settings, the instruments themselves, and the hierarchy of goals behind policy” (ibid.).

If one of the six social democratic governments does not show relevant changes with regard to goals and instruments, we call it a *traditional social democracy*. Whereas, changes in instrument settings and political strategies on the one hand and the achievement of traditional social democratic goals (social justice, social security, full employment) on the other hand signify a *modernized social democracy*. If parties adopt new instruments and redefine their goals and their priorities become reordered along meritocratic lines towards a liberal market economy, we will name those parties *liberal social democracies*. Applying these rules of change to the policies of the six social democratic governments, we arrived at the subsequent typology.

We derived three types of social democratic parties from this policy-classification which cover the whole range of social democratic parties in Europe. Our six countries under investigation are typologized as follows in Table 1.

The *modernized social democracy* does not “liberalize” existing structures of the welfare state and the labour market, but rather modernizes them. The “social investment state” reforms the social welfare state by adapting it to the changed context (global

⁷ We apply a different approach to typologize political parties. It does not follow the traditional path of classifying parties with regard to their programs, voters, and internal organizational structure, but with respect to their actual policies when they are in government.

Table 1 A typological classification of the six social democratic parties

	Changes	Fiscal policy	Employment policy	Social policy	Change of politics (overall)	Type of social democracy
SPD/GER	Goals	No	No	No	First order change	Traditional social democracy
	Strategies	No	Yes	No		
PS/F	Goals	No	No	No	First order change	Traditional social democracy
	Strategies	No	No	No		
SAP/SWE	Goals	Yes	No	No	Second order change	Modernized social democracy
	Strategies	Yes	Yes	Yes		
SD/DK	Goals	No	No	No	Second order change	Modernized social democracy
	Strategies	Yes	Yes	No		
New Labour/GB	Goals	Yes	No	Yes	Third order change	Liberalized social democracy
	Strategies	Yes	Yes	Yes		
PvdA/NL	Goals	Yes	No	Yes	Third order change	Liberalized social democracy
	Strategies	Yes	Yes	Yes		

competitiveness), but it does not replace it. This type of social democracy neither limits public social responsibilities, nor does it increasingly gear it towards market solutions for crucial societal problems. It rather expands the role of the “enabling state” (Giddens 2006) to include the field of social investments. Therefore, reducing monetary transfers, activating people, complementing rights with duties, adapting the labour market by maintaining high standards in social security and social services are the modern social democratic trade-offs. Denmark and Sweden fall into this category of modernized social democracy.

Liberal social democracies partially replace state regulations with market solutions and thereby converge towards liberal ideas. The provision of social-political minimum standards and the inclusion into the labour market are pursued more due to economic pressure than due to a wish to provide generous social security. New Labour and the Dutch social democrats⁸ show visible traits of this liberalized type of social democracy.

Traditional social democracies have hardly changed traditional regulations and instruments, while increasingly failing to achieve the traditional social democratic goals, such as full employment, high employment rates, social justice, and justice between gender and generations. This appears to be the paradox of the French and German social democracies. The patterns and the specific combinations of traditional goals and strategies of these three types of social democracy are summarised in Table 2.

⁸ Even though the level of traditional social welfare is still much higher in the Netherlands than in the UK, the change in welfare policies of the “purple coalition” displayed strong liberal tendencies.

Table 2 Characteristics of social democratic governmental policies

	Liberalized	Modernized	Traditional
Fiscal policy	Slight increase in public expenditures from a low level; tax cuts; competition-sensitive taxation; focus: consolidation by economic growth	Keeping high public expenditures; progressive system of taxation; business taxes sensitive to globalization; focus: consolidation and redistribution	No cuts of public expenditures; cuts of taxes (SPD); small tax base due to low employment; no consolidation.
Employment policy	“Activating” labour market policies; focus: inclusion into labour market	“Activating” labour market policies; focus: investments in human capital; security for the people	Passive labour market policies; focus: security of incomes
Social policy	Cutback and privatisation; increasing importance of private pensions; focus: welfare to work; targeted social policy	High standard of social security; importance of social services; focus: equal life chances; welfare with work	High standard of social security; monetary transfers; focus: protection of status; welfare without work

3. Social Democratic Trade-offs

The difference between the three types of social democratic parties becomes particularly obvious when looking at policy trade-offs. Following a rapid change in the national context for policy-making caused by the increasing internationalisation and Europeanization, social democratic parties accepted specific trade-offs between political goals. The priority they give to one policy goal at the price of the other demonstrates the political character of social democratic parties much better than any analysis of party manifestos.⁹ Two of these, which highlight the different social democratic strategies during the last decade, shall be presented here (Merkel et al. 2006: 387 ff.).

3.1 Trade-offs between Fiscal and Social Policies

Traditional social democracy focused mainly on the classical social democratic goal of redistribution through high social transfers. They responded to the pressure exerted by tax competition with tax reforms. Taxes were reduced (Germany) but expenditures were not cut significantly (Germany) or not at all (France). In doing so, both governments failed to balance the public budget (Figure 5).

Liberal social democracy has either renounced the aim of higher equality or replaced it by targeted means and tested welfare benefits. Therefore, it was able to restore sound public finances through expenditure cuts, by simultaneously reducing taxes (Netherlands, Great Britain) or maintaining them on a comparatively low level.

Modernized social democracy has continued to pursue redistribution mainly through social services and has restored sound public finances. These twin goals did not allow a

⁹ Party manifestos are rarely prescriptions or binding guidelines for governmental policies. They rather serve to mobilize members and voters or to construct a cohesive party identity.

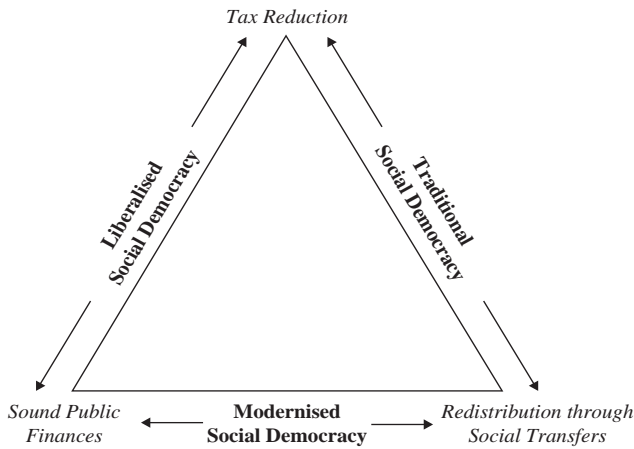


Figure 5 Social Democratic trade-offs between fiscal and social policies

Note: The figure reads as follows: The three types of social democracy pursued those two policies located next to them and neglected the policy on the opposite corner of the triangle.

simultaneous reduction of taxes. Taxes were reduced in investment-sensitive areas (business, capital) only in order to avoid capital outflow. In general, there was no reduction of taxes.

3.2 Trade-offs between Employment and Fiscal Policies

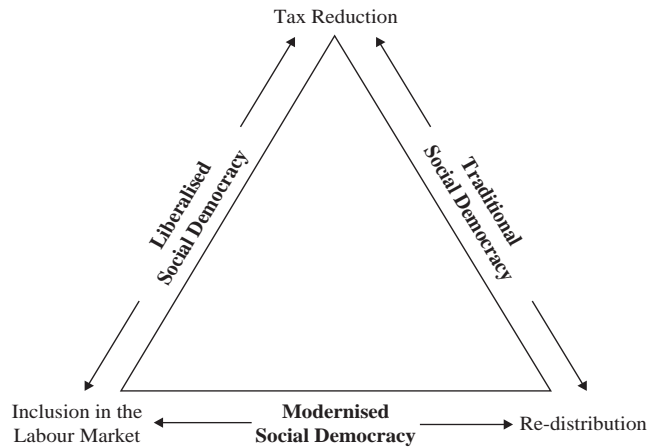
Liberal social democracy has reduced the tax burden or maintained its low level as long as possible, but it has simultaneously implemented activating labour market policies. The activating measures were partially achieved by strongly emphasizing individual duties to accept (any) job offers. Cost-intensive investments in human capital were hardly carried out. Instead, deregulation supported inclusion into the labour market. Decommodification and re-distribution decreased (Figure 6). This trade-off clearly shows one of the defining features of liberal social democracy as best represented by the three Blair Governments from 1997 to 2007.

Modernized social democracy pursued a different strategy. Inclusion in the labour market was attained by increasing individual responsibilities, investments in training and education and excellent job mediating services. Denmark combined a comparatively highly deregulated labour market¹⁰ with the highest standards of social security. “Flexicurity” proved to be a successful policy in order to achieve economic and social inclusion. Again no tax reduction (Figure 6) was carried out.

In contrast, *traditional social democracy* has retained a high level of social benefits, low individual responsibilities (until the labour law “Hartz IV” was introduced in 2005) and a highly regulated labour market. A cost-intensive activation policy was not implemented. “Welfare without work” (Esping-Andersen 2002) resulted counter-intentionally in a poor social democratic policy performance. While liberal and especially modernized social democracies believe in an “enabling state”, encouraging employment capabilities and individual empowerment (Giddens 1998; Sen 1999) of unemployed and low-skilled

¹⁰ Aiginger and Guger (2005: 42) calculated the overall index of labour market regulation with 1.8 compared to 2.3 of the EU-15.

Figure 6 Social democratic trade-offs between employment and fiscal policies



persons, thereby enhancing the chances of participation in the market, traditional social democracy still assigns a primarily passive, non-activating protective function to the welfare state. During the last two years of the second Schröder Government, the SPD policies began to change. The Hartz IV labour laws, the proposal of the Minister for Labour and Social Affairs, Franz Müntefering, to postpone the pension age, and the new party program in 2007 show a higher number of elements of a liberal and modernizing social democracy. However, all of these modernizing policies and policy proposals are strongly criticized by the “left-”wing traditionalists.

4. Explaining the Performance and the Capacity to Reform

Policy output, outcomes, and government performance need to be explained by a specific combination of structure and action. Structures, in particular political institutions form the “corridor” and as such determine a “feasible set” of political actions (Elster 1979), from which the decision-makers select their choices. In other words, the capacity to reform is dependent on structure *and* political action. Structure, tradition, values, and expectations of the citizens create path dependencies. The following scheme shows the most relevant structural factors, which influenced the choices and decisions of (social democratic) governments in particular. However, political action can use to a varying degree the existing room to manoeuvre or even to change structures, expectations, and values in order to create a suitable context for long-term and sustainable reform policies.

The structure and economic competitiveness of the national political economy, the nature of collective wage bargaining and the types of trade unions, the character of party competition and the political institutions form the structural framework for governmental policy-making. Social democratic parties are, like all political parties, vote and policy-seeking actors. Their strategic capacity to reform depends not only on the structural context but also on their internal cohesiveness and leadership within the party and government (Merkel et al. 2006: 95 ff.).

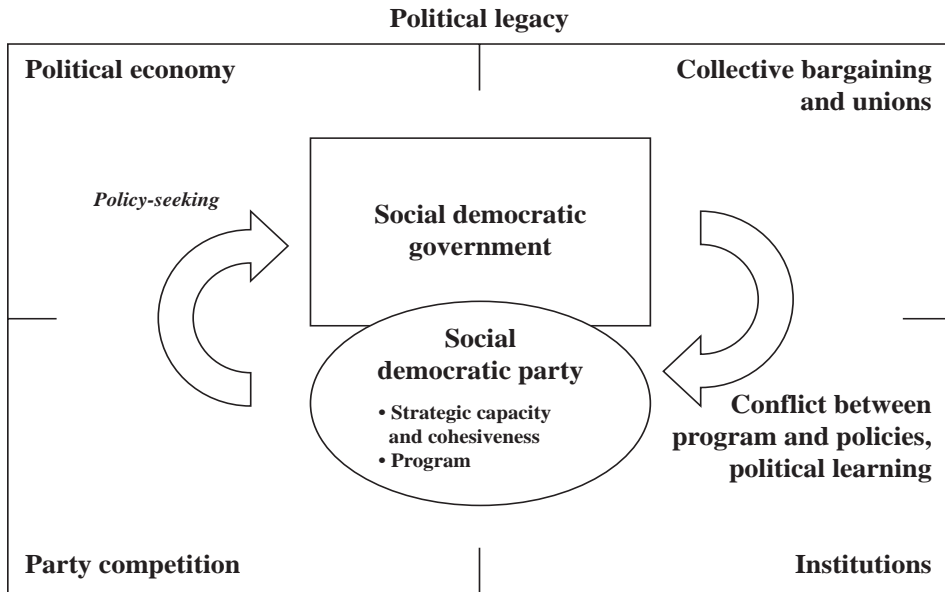


Figure 7 Political framework of governments

These variables are associated with certain theories which explain welfare state reforms or, more generally, explain the change in the status quo. These theories or concepts fall into two categories: (1) institutionalist/structuralist or (2) actor-centred concepts.

- (1) Political institutions (i.e., second chambers, constitutional courts, etc.) are important in so far as they may involve additional players in political decisions. The more players are involved, the less likely change occurs. Several different indices count the number of relevant institutions (Tsebelis 1995; Colomer 1996; Schmidt 1996). In addition to political institutions, the structure of the welfare system itself (i.e., tax-financed vs. contribution-financed welfare states, regulated vs. deregulated labour markets, etc.) can shape the direction and content of reforms (Hall and Soskice 2001).
- (2) Others state that party competition is the main explanatory factor with regard to welfare state reforms. The fragmentation of left and right of the party spectrum and the type of the "major party of the right" (i.e., conservative or Christian democratic) determine the extent and direction of reforms (Castles 1982; Kitschelt 2001). In addition to parties, other actors such as unions and business organizations also influence political decisions (Olson 1982; Scharpf 1987).

In the following paragraph, we will briefly scrutinize the explanatory power of these two approaches in explaining the observed policy patterns of the six social democratic governments, focussing on political institutions and party competition.¹¹

¹¹ For a discussion of internal party structures, welfare state structures and the role of trade unions for social democratic policies see Merkel et al. 2006, chapters 3 and 6.

In the UK, Sweden and Denmark, no constitutional institutions except the parliament are formally involved in political decisions. They have no second chambers with relevant veto powers, no constitutional courts, no independent social insurance agencies. But did the social democratic governments use this political room to manoeuvre? New Labour did not implement any drastic policy changes compared to its predecessor but rather adopted liberal policies especially in labour and social policy. The party itself underwent big changes. In contrast to this, the Scandinavian social democrats underwent a much smaller ideological change, but used several new instruments compared to the 1980s. Obviously, similar constellations with regard to the institutional constraints do not lead to similar outputs. The difference can be explained with different policy legacies and preferences of the social democratic parties and governments. Do institutions matter in the case of France and Germany? Divided government and a constitutional court in France and a strong second chamber with an opposing majority coincide with only minor and traditional reforms. The Constitutional Council impeded a number of initiatives of the Jospin administration. In all of these cases, however, the government was able to find a new solution to implement the proposed measures, or the court revoked a political decision that would have further strengthened the traditionalist profile of the government. The Federal Constitutional Court in Germany did not revoke any decisive measures in the economic or social policies of the SPD government. The Bundesrat, dominated by Union-governed Länder, repeatedly proved to be an effective veto player, able to force the SPD into considerable concession-making (Merkel 2003). However, the resulting compromises usually forced the SPD to pursue more market-oriented policies. This facilitated the turn from traditional policy patterns that began in 2003. Therefore, institutional veto points are not the decisive explanations for the traditionalistic policies in Germany and France.

Can actors' constellations explain the observed policy patterns better? Competing parties and coalition partners can limit the room to manoeuvre and direct political action decisively. Out of the six parties, three were in the favourable position of forming a single party government. The Labour Party commanded the largest post-war majority during its first and comfortable majorities during the second and third term. The Danish and Swedish social democrats formed minority governments. They used so-called 'legislative coalitions' with either bourgeois or left parties to implement their policies, depending on the aspired policy content. Therefore, the British Labour Party was not constrained by other parties in formulating and implementing their policies. To a lesser degree, this is also true for the Danish and Swedish social democratic governments. However, sometimes, they had to compromise within informal legislative coalitions. In contrast to this, the social democratic governments in the Netherlands, Germany and France were formal coalition governments. In the Dutch case, the PvdA formed a coalition with two liberal parties, leading to concessions especially in fiscal policy (consolidation and tax cuts). The *gauche plurielle* in France was a left coalition where all parties were concerned about pursuing their leftist stance, leading to traditionalistic policies. In Germany, the green coalition partner of the SPD mainly had an impact on ecological, societal and foreign policies. The Greens' effect on fiscal, social and employment policy was rather weak (Egle 2006: 273 ff.).

With regard to party competition, we can observe a two-fold pattern: On the one hand, the fragmented bourgeois parties in Scandinavia and the market-liberal Conservative Party in the UK, on the other hand the Christian-democratic or Gaullist bourgeois parties

in Germany, France, and the Netherlands. This pattern explains to a considerable degree the behaviour of the Scandinavian parties and the traditionalistic policies in Germany and France. The statist Gaullists limited the PS' room to manoeuvre towards the political centre and the leeway of the SPD was mainly constrained by the Christian Democrats. Therefore, either the coalition partners (Netherlands, France), or the type of the major bourgeois electoral rival¹² explain the observed policy patterns to a greater extent than institutional settings do:

- The pivotal position of the social democrats in party competition offered many coalition options, and welfare reforms were possible without the veto power of other actors (Sweden and Denmark)
- party competition limited new programmatic approaches due to the existence of a leftist coalition and a second big welfare party (Germany and France);
- party competition gave great leeway to the right (UK) or the movement to the right was demanded by the coalition partner (NL).

Conclusion

However, this does not mean that one should neglect the impact of institutions. Sometimes, they may influence the capacity to reform more than in our six cases under investigation. For example, the majoritarian electoral system in the UK makes it necessary for Labour to convince the median voter. The move to the right was a precondition for winning elections. And, of course, the second chamber, the Bundesrat has had an impact on policies – although not necessarily leading to “smaller” reforms. Additive indices of institutional constraints do not explain the amount and direction of policy, especially not in the short or medium run. Institutions without actors do not explain political change. It is useless and impossible to determine whether actors or institutions matter more. The concrete constellation and interaction of political actors within a given structural frame determine the capacity to act and to reform. Needless to say that both change over time due to their reciprocal impact on each other.

Taking actors' preferences and strategies seriously bears consequences for comparative studies. The structure of party competition is not a fixed or stable setting. If we want to explain policy change, heroic *ceteris paribus* assumptions with regard to the preferences of political parties and other relevant actors are often risky and now and then misleading. In any case, they leave a black box concealing the dynamic interaction between political competitors. They cannot explain or even take into account when and why actors change their preferences, i.e., their goals, strategies, and policies. The comparative analysis of social democratic governments has revealed that changes in strategies and goals do not occur simultaneously. Strategies and policy instruments can be modified without giving up traditional goals. The social democratic governments of Scandinavia proved this with its impressive performance in government.

¹² We restrict our discussion here to the major bourgeois competitor. However, the existence and strength of other leftist parties is an important factor as well. Furthermore, the constellations and relationships between social democrats and their leftist competitors seem to be rather unstable over time in Germany, France, and the Netherlands.

Those social democratic parties, however, which did not change their traditional strategies, have failed the greatest in achieving their traditional goals of full employment and social justice. Once again, in times of rapid changes, a limited and well-thought revisionism turns out to be more effective with regard to the traditional goals than an orthodoxy that changes neither strategies nor goals.

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Appendix

Explaining variables of social democratic table 3 governments' politics.

Social democratic party as an actor						
	SAP (SWE)	SD (DK)	Labour (GB)	PvdA (NL)	SPD (GER)	PS (F)
Programmatic reformation	Reformation in government	Reformation in opposition	Reformation in opposition	Unfinished reformation in opposition	Traditionalism	Revitalization of left-wing values
Relation to unions	Strong	Strong	Average	Low	Average	Low
Party competition						
Constellation of government	Minority government; changing cooperation with leftist and centre parties	Minority government; changing cooperation with leftist and centre parties	One-party-government	Junior partner of a big coalition, later in coalition with the liberal parties	Coalition with the Greens	Coalition with three smaller leftist-parties
Existence of left-wing parties	Yes, outside of government	Yes, outside of government	No	Yes, outside of government	Only regional, outside of government	Yes, within government
Centre parties	Fragmented	Fragmented	United	Moderately fragmented	United	Moderately centralized
Programmatic orientation of the parties	Heterogeneous; between market and welfare orientation	Heterogeneous; between market and welfare orientation	Liberal (economic)	Christian democratic	Christian democratic	Etatistic
Institutions						
Second chamber with veto powers	No	No	No (House of Lords)	No (First chamber)	Yes (Bundesrat)	No (Sénat)
Existence of an Constitutional Court	No	No	No	No	Yes (strong)	Yes (weak)
System of wage bargaining and unions						
Wage-bargaining	Coordinated, shadow of hierarchy	Coordinated, shadow of hierarchy	Fragmented, free wage bargaining	Coordinated, shadow of hierarchy	Coordinated, autonomous wage bargaining	Fragmented
Integration of unions into the politics of government	Yes	Yes	No; no attempt of exchange	Yes	No; collapsed attempt of exchange	No; no attempt of exchange

 Political economy/structure of the welfare state

Dominant financing	Taxes	Taxes	Taxes	Contributions	Contributions	Contributions
Regulation of labour market	High	Low	Low	Moderate	High	High

Political heritage

Accumulation of problems with entrance upon government	High	Moderate	Low	Moderate	High	High
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