

# *Social democracy after the Third Way: restoration or renewal?*

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## Introduction

A plethora of literature has been produced on social democracy's transformation towards the Third Way (TW) in the early 1990s, its change of policy paradigm thereafter, and its record in government (see Huo 2009). There is now also an emerging literature that critically analyses why and how social democrats were ousted from office as a result of the embrace of TW policies (see e.g. Cramme and Diamond 2012; Meyer and Rutherford 2012; Schumacher 2012; Arndt 2013). How has social democracy in Western Europe tried to cope strategically with the TW's political failure? What do social democrats do (or what can they be expected to do) when they regain office after a long opposition spell?

Given their ill-fated political experience, one would not expect social democrats returning to office to take up again the liberal, supply-side-oriented labour market and social policies that were so typical of the TW. In fact, some social democrats have actively formulated what they see as a necessary clean 'break from a decade of Third Way policies' (Meyer and Rutherford 2012: 3). The TW's major weaknesses are interpreted as stemming from too radical a break with old social democracy, including an imprudent and radical farewell to Keynesianism as its inspiring economic theory, the embrace of supply-side-oriented social policies, and the neglect of unions as coalition partners in power mobilisation. Moving so close to neoliberalism ideologically, the argument goes, left social democrats clueless when the financial crisis broke out and neo-classical economic theories, which also inspired the neoliberal side of the TW model, were so clearly discredited.

A return to the TW would also be surprising because we know that voters care deeply about traditional welfare state policies. For instance, social policy and labour market issues are among the top three most salient issues in European elections, and especially in Scandinavia (Aardal and van Wijnen 2005; Oscarsson and Holmberg 2008: 54). In Denmark, 'welfare' has been the single most salient issue in every election since 1994 (Stubager *et al.* 2013: 26). Moreover, the electoral punishment as a direct consequence of the adoption of TW social policies has been extensively

demonstrated in several recent studies (Schumacher 2012; Arndt 2013; Schumacher *et al.* 2013).

Strongly formulated, then, we do not expect the TW agenda to re-emerge when social democrats again take office.

Anticipating our results below, however, a continuation of TW policies is exactly what we find. Based on a case study of Danish Social Democrats (back in power since late 2011) and informed by the comparative literature, we show that social democrats essentially continue to adhere to the TW. The literature stresses three key amendments to the TW agenda. First, social democracy has left behind its naïve, unquestioning belief in the market and, in the wake of the financial crisis, now expresses a sharper criticism of unregulated financial markets. Second, although social democracy sticks to the characteristic overarching TW goal of the maximisation of labour market participation (e.g. through active labour market policies), it now emphasises education and employability even more than before, and has become much stricter in targeting those unwilling to accept a job or an education. Third, there also seems to be a careful re-emphasis of the issues of inequality and poverty, especially since both income and labour market inequalities have been on the rise in recent decades – although traditional redistributive policies are not endorsed.

The Danish experience illustrates a case where social democrats, during a 10-year period in opposition and during the last electoral campaign, pledged to expand the welfare state, but upon their return to power ushered in an updated TW agenda. This renewed TW agenda reinitiates the activation and flexibility policies of the 1990s, with a now even stronger and harsher emphasis on the obligation of workers and employees to work or to prepare for the labour market.

This paper proceeds as follows. First, we review the characteristics of the TW and selected literature. Next, we justify the selection of Denmark as our case study. Then we present the case study, detailing what social democracy looks like after the TW. We then introduce a comparative perspective by asking whether other social democratic parties are likely to follow the Danish lead. In the conclusion we summarise our findings and discuss theoretical arguments for why social

democracy is unlikely to break completely with the TW, but instead is more likely to govern with a revised TW agenda that sticks to activation and the 'no rights without responsibilities' paradigm.

## **The Third Way**

### *Ideological features*

In the 1990s, intellectuals affiliated with social democracy were actively reformulating social democratic ideology and promoting TW policies (Cuperus and Kandel 1998; Cuperus *et al.* 2001; Giddens 1998, 2000, 2001). Anthony Giddens theoretically elaborated why 'old' social democracy left unanswered the dilemmas and problems associated with modern society, namely those stemming from globalisation, individualisation, the exhaustion of the left-right distinction, the transformation of state and government towards 'governance', and the rise of new risks (Giddens 1998: 27–64). He formulated which values 'new' social democracy ought to embrace in order to deal with these challenges: equality, protection of the vulnerable, freedom as autonomy, no rights without responsibilities, no authority without democracy, cosmopolitan pluralism, and philosophic conservatism (Giddens 1998: 64–68).

The TW's political theory was then translated into the policy-oriented Blair-Schröder paper (1999). This pamphlet downplayed the role of ideology and endorsed 'honest, well-constructed and pragmatic policies' (Blair and Schröder 1999: 163). Globalisation and technological change and their effects were accepted as givens to which policy and people should adjust. Most conspicuously, it elaborated a new supply-side agenda for the left, with a top priority for investment in human capital. This key innovation, of particular relevance in the Continental and Scandinavian context, concerned labour market activation, with an emphasis on (re-)training, reintegration policies, part-time and temporary employment, adjusting the tax-benefit system to 'make work pay', and lowering the labour costs of entry-level jobs so as to promote a low-wage sector that offers low-skilled jobs.

### *Empirical-analytical studies*

The academic literature analysed and described the policy transformation of TW social democracy (Driver and Martell 2000; Green-Pedersen *et al.* 2001; Pierson 2001; Davies 2012). Green-Pedersen *et al.*'s (2001) study of social democratic policies in Denmark and the Netherlands showed that TW policies, with a strong focus on activation and social investment, were being implemented in Social Democratic-led coalitions in those countries in the 1990s.

Huo's (2009) comparative study of nine country experiences with TW reforms concluded that, in spite of considerable variation, the core policies concerned 'active protection' through active labour market policies. TW social democrats in power worked to bring about 'a fundamental shift in policy paradigm from income replacement to enabling employment (...)' (Huo 2009: 320).

The literature also identified electoral and political dilemmas inherent to TW policies. Facing fiscal austerity, social democratic parties could not cater both to their traditional insider constituency by demanding the protection of passive income replacement schemes and to outsiders by demanding activation and skill formation to increase employability (Rueda 2007). Investment in activation and education often comes at the expense of passive income replacement schemes, while producing a number of contingency dilemmas. Reforms that emphasise activation and cater to new social risk groups are often not rewarded in electoral terms. New social risk groups have simply too heterogeneous political preferences and are therefore difficult to mobilise, while old core constituencies punish the party for reforms to the passive benefit schemes to which they feel entitled (Rueda 2007; Huo 2009; Arndt 2013; Schumacher *et al.* 2013). But social democrats also alienate potential centrist coalition partners if they are not willing to reform (Kitschelt 1999). Cooperation with centrist coalition partners, however, pushes reforms beyond social democracy's original policy preferences, which is electorally also hazardous, and has the side effect of giving more leeway to reform-minded factions in the party.

These contingencies constitute various dilemmas, which either materialise as electoral slack or decimate social democracy's office- and policy-seeking capabilities. The electoral dilemmas are

reinforced if there are challengers on the fringes that mobilise disaffected social democratic (core) voters with social protectionist appeals (e.g. new right or new left populist parties).

Such dilemmas lay at the heart of the TW's political and electoral failure. The literature first observed that the powerful position of social democrats during the (late) 1990s had quickly evaporated, while the TW optimism about the new millennium had proven ill-founded. In fact, the defeat of social democratic parties all over Europe, to the benefit of the right, even the radical right, and more recently a social populist left, came as a surprise.

Some analyses (Hale *et al.* 2004) argued that the TW had continuing relevance, also for parties in power. But the Labour Party's defeat in Britain's 2010 election sparked a host of studies stressing the TW as a political failure. These studies partly claimed to show the essentially neoliberal nature of New Labour's project (e.g. Davies 2012; Newman forthcoming) and linked this to the obvious failure of social democracy to profit from the disappointment in neoliberalism in the wake of the financial crisis (Ryner 2010). But they also revived efforts to redefine critically social democracy's project 'after the TW' (Cramme and Diamond 2012; Meyer and Rutherford 2012). Many point out the naivety of the TW's (financial) deregulation enthusiasm (e.g. Newman forthcoming) and its excessive confidence in how globalisation and technological development's benefits would trickle down to the worst-off in society. Academic studies have tried to explain the dismal electoral fate of TW social democrats in power after the turn of the millennium. The 'disastrous results' for the parties are explained as a result of core voters turning their back on the TW agenda (Schumacher 2012; Arndt 2013).

Looking at the new project for social democracy after the TW's political downfall, we see that while the term is avoided, the TW paradigm itself still seems very much the centre of social democratic thought. One example is the continuing stress on education and training and their positive impact on equality of opportunity, social mobility, employment and employability, growth, and social inclusion (Kenworthy 2012: 122). Many analyses echo and reinforce essential TW policy convictions, but with

a less naïve belief in the strengths of unfettered markets, a more sceptical look at the European Union's market-making project, a recognition of traditional values, and a less cosmopolitan and permissive outlook on migration (Diamond 2012).

Even though the role of the state in tempering capitalism is discussed more often in the new agenda than it was under the TW, there is no return to old-style statist social democracy. The TW may have underestimated the destructive power of under-regulated markets (Cruddas and Nahles 2012: 199), but the market is still considered a source of innovation that drives productivity and prosperity (Dullien *et al.* 2012: 73).

There also seems to be a continuing stress on reciprocity in social policy, i.e. a belief that social rights need to have correlative duties, but at the same time a correction of the tendency to stress too much personal responsibility for the most vulnerable in society. In addition, there is clearly a much higher awareness of the inequalities associated with flexible labour markets and new social risks (Diamond 2012; Dullien *et al.* 2012: 204).

The TW's distinctive features and its latest amendments are summarised in Table 1, which also contains some prominent policy examples taken from the Danish case. We use these features as a checklist against which we explore the Danish case to learn what happens when post-TW social democracy returns to power in a centre-left coalition.

#### **Table 1 about here**

#### **Case selection**

The best case to answer our questions and probe our expectation is the Danish one. A study of Danish social democrats in power is appropriate and helpful for five reasons. First, the Danish Social Democratic party was one of the first parties in the 1990s to govern with an outspoken and coherent TW platform that was, at least partly, adopted by many other Continental European sister parties (Green-Pedersen *et al.* 2001). Second, the party was a trailblazer because it was one of the first to

suffer intensely from its TW conversion. It lost large parts of its core constituency, which had become alienated by three rounds of encompassing supply-side-oriented labour market reforms under Social Democratic-led governments in the 1990s (Arndt 2013: Chapter 6). Moreover, the party never recovered from this, and has retained around 25 per cent of vote shares since their disastrous 2001 election. Third, the Danish Social Democrats were in opposition for a decade (2001–2011), when a centre-right minority government of liberals and conservatives – with parliamentary support from the Danish People’s Party – held office. Fourth, this long opposition spell ended in September 2011, when the Social Democrats regained office in a centre-left government. Such a coalition, unlike a centre-right or a cross-ideological one, is the party’s best occasion to pursue its own preferred policies. Fifth, the country’s relatively low debt burden around 2011 would, in principle, permit expansive (Keynesian-minded) fiscal and social policies. By implication, Denmark gives us the best opportunity to answer the question of what post-TW social democrats do when returning to power.

Although the Danish Social Democratic party did not win the elections of 2011 (see Table 2), it was nevertheless able to forge a centre-left minority coalition government. This makes it the only post-TW social democratic party in power that rules in a centre-left coalition, in which it also controls key ministries, including Finance, Education, Employment, and Social Affairs and Integration. Again, this gives us an opportunity to study what happens when social democracy returns to power after the TW.

#### **Table 2 about here**

There are other cases (see Table 3) that could have been examined in the present study. The Austrian case, for instance, is interesting, because social democrats there have been in office since 2007, after an interlude (2000–2007) of centre-right cabinets. The Austrian tradition of grand coalitions (Christian Democrats and Social Democrats), however, makes it prohibitively difficult to discern cleanly the social democratic influence.



Another alternative would have been France, where social democrats have been governing since 2012 with a leftist presidential majority. The drawback here is that the French Socialist Party has always held on to a strongly statist tradition and never embraced the TW policy agenda. As Huo (2009: 131ff) shows, this statist legacy hampered the development and the effectiveness of core TW policies, especially active labour market policies. Hence, France cannot serve as a post-TW test case.

Norway would also have been an option. However, due to their large oil revenues, this case is exceptional. The country's economic and budgetary situation has been so advantageous (double digit budget *surpluses* since 2006 and unemployment around 3 per cent) that the conditions to which the Third Way was a response (structural long-term unemployment, very high rate of inactivity, lacking competitiveness) are virtually absent.

Finally, the Dutch case, where social democrats have been in government again since November 2012, would have been an option. But the cross-ideological, 'purple' coalition with its main competitor on the right makes it – as in the Austrian case – too hard to single out the social democratic impact.

**Table 3 about here**

### **Post-Third Way social democracy in power**

Studying Danish social democracy's policies and strategies can inform us whether and to what extent a social democratic party in power after the TW moves beyond or continues to adhere to TW policies. It can further indicate which components, if any, of the TW policy agenda are retained, revised, or suspended.

### *The centre-right legacy*

We first discuss briefly the centre-right government's policy legacy. The Danish liberal-conservative governments (2001–2011) did not try to reverse the TW-inspired labour market policies that its Social Democratic predecessors had introduced during the 1990s, nor did they embark upon fundamental welfare state reforms and outright retrenchment for fiscal reasons, given the economic boom period that lasted until 2007/2008.

Politically, the Liberals were keen not to destroy their chances for re-election by taking anti-welfare state measures. Consequently, the government reformed labour market policies to strengthen activation and increase obligations for job-seekers, but it did not lower the replacement rates or the duration of unemployment benefits. In fact, the government made some benefits more generous in an attempt to keep the support of the former Social Democratic voters that both the Liberal party and the Danish People's Party had won in 2001. The Social Democrats had no answer to this strategy and they lost the 2005 elections. The electoral result was again disastrous: they lost a further 3.3 percentage points. Under its new leader, Helle Thorning Schmidt, the party's decline decelerated but did not come to a halt (see Table 2).

The centre-right government reached a cross-party agreement on welfare state reform with the Danish People's Party, the Social Democrats and the Radical Liberals (see Aftalen 2006). This package foresaw a longer working life, a rise in the pension age to 67, and an early retirement reform increasing the eligibility age to 62. The settlement also extended the mandatory contribution period for early retirement from 25 to 30 years. Moreover, the longer eligibility period for unemployment benefits for the older unemployed was abolished. The settlement also included various TW-like measures, supported by Social Democrats in opposition, to strengthen educational up-skilling, (re-)qualification and (re-)training, as well as research and development.

The government changed course as a result of the financial crisis, however, and in early 2011 it announced harsher welfare state reforms. The early retirement scheme was drastically cut. The duration of unemployment benefits was shortened from four to two years. The Social Democrats

immediately promised to repeal both measures if a centre-left government regained power, and campaigned in favour of the early retirement scheme.

### *A new centre-left Third Way?*

In the 2011 elections, the Social Democrats polled a historic low of 24.8 per cent (not seen since 1920), whereas the Liberals remained the biggest party (see Table 2). Still, due to the shrinkage of the conservatives, the centre-right coalition had lost its majority. Danish Social Democrats were able to form a minority coalition government with the Socialist People's Party and the Radical Liberals, dependent on the parliamentary support of the radical left Unity List and three representatives from Greenland and the Faroe Islands.

The inclusion of the Radical Liberals was not the Social Democrats' preference. The pre-electoral coalition statement had favoured a pure 'red government' with the other two left-wing parties. However, this combination (plus the seats from the Faroe Islands and Greenland) provided only 75 seats, so that the 17 seats from the Radical Liberals were necessary to reach a parliamentary majority of 92 seats (out of a total of 179).

The coalition agreement (Regeringsgrundlag 2011) clearly departed from what the left-wing parties would have liked it to be. The Social Democrats and especially the Socialists had to give up many of their cherished campaign pledges. This gave the new government a reputation for breaking its promises. One illustration is the reform of the early retirement scheme, a highly passive scheme introduced in 1979. The scheme was explicitly introduced as a labour market policy to create more room for younger workers by offering additional labour market exit options to older workers. It was to cover a maximum of 17,000 workers in the first year and 27,000 in the third year. By 1998, 136,000 people were receiving an early retirement benefit (Klitgaard Kristensen *et al.* 1999: 9).

An initial reform of this scheme had been one reason for the fall of the Social Democratic government in 2001. In the 2011 elections, the Social Democrats and Socialists promised to defend

the scheme in the form that it had held since the 2006 reforms. Instead, however, the Social Democrats, even during the election campaign, began to signal that they were willing to accept the reforms from earlier that year if a pro-reform majority was still in parliament after the election. In fact, once in office the new coalition government committed itself to the previous government's cross-party settlement.

This broken promise is explained by three things. First, the early retirement scheme was popular among voters, so that defending it in the beginning of the campaign was a strategically prudent decision, as actively supporting its abolition almost certainly would have been disadvantageous. Second, the Radical Liberals' staunchness on this issue led to reconsiderations among leading Social Democrats about alienating a potential coalition partner. Economic policies regarded as too expansionary might lead the Radical Liberals to support a bourgeois minority government and block a return of pre-TW economic policies, reinforcing the policy-office dilemma (Kitschelt 1999) brought about by the long opposition spell from 1982-1993. The stance of the Radical Liberals most likely strengthened the position of the TW reform wing, which thus obtained more leeway to pursue its preferred policies against the objections of the party's traditionalists.

Third, protecting the passive early retirement scheme is characteristic of old-style social democracy and difficult to square with the activation, labour market participation and welfare state reform agenda that Danish Social Democrats and the Socialists had embraced in their common 2011 electoral manifesto, whose motto was an appeal to Danes: 'Everyone can contribute. Everyone must contribute' (Sammen om Danmark 2011: 1, our translation). Indeed, the de facto abolition of the early retirement scheme is fully compatible with social democracy's original TW policies, when passive early exit schemes were already restructured and retrenched (Huo 2009). Moreover, the government plan that the Social Democrats and Socialists offered the voters in 2011 stated: 'It will be a great economic benefit to society if more people in the future choose to work longer, and if many more of those who withdraw from the labour market do this more gradually or continue to

work part time' (Fair Løsning 2020 2011: 78, our translation). Still, the image of broken promises gave the centre-left government a bad start and its popularity plummeted (Risbjerg Thomsen 2012; Skadhede 2012).

In the beginning of 2012 the government began to present its proposals and policies (see Beskæftigelsesministeriet 2012 and Regeringen 2012). These resemble the TW policies summarised in Table 1, especially with respect to the labour market. The reform packages propose to abolish the ceiling on social assistance introduced by the former government, but also initiate tougher activation for social assistance claimants. They also propose to eliminate the disability pension benefit for younger unemployed under 40. This scheme is an early retirement program for people with reduced work capabilities due to a physical or mental disability. However, many inactive or unemployed had drawn such a pension 'for social reasons', such as a lack of work discipline. By 2011, about 250,000 Danes were on this benefit, and the number of young claimants was rising rapidly. Claimants over 40 will keep the option to draw a pension, but are now required to participate in special labour market reintegration training (Regeringen 2012: 10ff).

Further reforms concerns the 'Flexjob' scheme, a special labour market program for people with reduced work capabilities, which will be made temporary for those under 40, while older people will still be entitled to its benefits permanently. Moreover, the benefits are to be targeted exclusively at people below a certain income. The reforms of the disability pension and the Flexjob scheme typify the TW turn from pure universalism to a mix of universalism and selectivity (see Table 1). Younger claimants of the disability pension no longer enjoy universal and unlimited protection, but have to participate in specific temporary programs to maintain eligibility.

These measures do not imply direct retrenchment, because benefit levels remain the same, typically at the level of social assistance. Rather, the measures tighten eligibility criteria, shorten eligibility periods, target benefits directly to specific groups, and introduce rigorous activation demands (see Table 1). In this sense, they resemble almost perfectly the TW labour market policies of the 1990s.

The goal is not retrenchment, but labour market re-integration and the abolition, or at least activation, of the passive schemes.

This reinforcement of active labour market policies is almost entirely driven by a rebalanced version of the TW's 'no rights without responsibilities' paradigm, particularly represented by the Social Democratic Minister of Employment Mette Frederiksen. Matching the TW's policy principles (see Table 1) to a considerable extent, she accompanied the introduction of major labour market policy reforms with articles in national newspapers to introduce and legitimise them. They typically have TW topics, wording and titles, such as 'The young must get to work', 'More education, fewer rules', 'More people must contribute to the community and fewer people should be on passive benefits', 'A better-qualified Denmark with more people in employment', and 'Restoring the balance between rights and obligations'. These texts emphasise the obligation of the unemployed to be ready for the labour market, accept job offers and show a convincing willingness to work in return for social protection. The labour market policies stress the need to strengthen the educational level, training and skill qualification of labour market outsiders and insiders to make Denmark's labour force employable and competitive in the knowledge economy. They have a double-sided nature: they empower beneficiaries through education and (re-)qualification, while they also coerce via tightened eligibility criteria and often conditional benefits. Economic policies to promote growth and to increase labour market supply are primarily described as a means to avoid welfare state retrenchment.

Politically, the Social Democrats are presenting themselves as being capable of reforming the welfare state while helping Denmark out of the crisis. Top representatives of the party's various currents restated their ambitious and updated TW agenda, stressing free and equal access to welfare, social protection, a strong state, financial market regulation, education, training, flexicurity, and childcare facilities (Larsen *et al.* 2012). Moreover, the new agenda distances itself from Keynesian deficit spending and orthodox demand-side policies (which in principle were feasible in

Denmark by 2011). In fact, it explicitly refers to the labour market policies of the 1990s as the point of departure for the social democratic project and foresees a revival of such policies.

The Social Democrats also accepted the cut in the unemployment benefit from four to two years that the previous centre-right government had introduced. The argument was that such policies were not solely driven by the Radical Liberal coalition partner, but reflect the government's and the Social Democrats' attitude towards labour market and social policy. The party leadership refused a proposal to introduce more lenient eligibility criteria for unemployment benefits. Entirely consistent with the TW strategy, the government refused to accede to the pressure to extend the unemployment benefit duration, and instead made a deal with employers and unions to set in motion an emergency plan of DKK 332 million (€ 44.5 million) to get the long-term unemployed, who are at risk of losing their benefits, back into employment. This reform *par excellence* mirrors the TW's accentuation of shorter eligibility periods and tighter eligibility criteria for passive schemes, supplemented by activation procedures (see Table 1).

Facing rising youth unemployment, the Social Democrats supplemented the retrenchment policy with further active labour market policies in their negotiations over the 2013 budget. The government announced a special reform package for younger unemployed whose eligibility for unemployment benefits was scheduled to end by 2013 and for social assistance recipients under 30 (Ungepakke 2012). It consists of various measures to secure apprenticeships, education, retraining, and qualification for unemployed persons without education, who lack skills or who have been inactive for longer periods. The government also proposed a further reform of social assistance in early 2013: benefits for people under 30 will be lowered and eligibility criteria tightened and made conditional upon taking up education or community work (Beskæftigelsesministeriet 2013: 10). Mette Frederiksen explicitly stated that the money saved through the reform will be directly transferred to the educational sector (Burhøi and Bonde 2013: 5).

The Social Democrats have been ready to jeopardise the support of their closest partners (the Socialist Party and the Unity List) by turning to the opposition to secure their TW-style reform packages. In the summer of 2012, for instance, the Social Democratic government reached a tax agreement with the Liberals and the Conservatives. An earlier tax reform proposal already foresaw an increase in labour supply and balanced public finances. However, the government reached an alternative agreement with the previous governing parties, in which the main aspects of the earlier tax reform proposal were included, but to which further measures were added (Finansministeriet 2012a, 2012b). The Unity List was manoeuvred out of the deal, primarily because the party was expected to oppose the cuts to the welfare state's passive benefits.

The tax reforms' overarching ambition is to make work pay by decreasing taxes on labour. The tax cuts are targeted at low and middle incomes and introduce higher tax-free brackets as well as a higher threshold for upper-bracket income tax. The measures reduce the marginal tax rate of average wage earners and increase the incentives for welfare state beneficiaries to take up employment. One example is the extra tax-free amount that single parents will enjoy when they take up work. Epitomising the debate over welfare state disincentives, the reform intends to increase the gap between wages and benefits. In the spring of 2013, the government also decided to lower the corporate tax rate from 25 to 22 per cent, a measure that surprised even the centre-right.

Financing occurs partly through short-term deficit spending. This is deemed acceptable because it allows a smooth phasing in of the reforms and because their revenues have a time lag. Moreover, people receiving the maximum unemployment benefits stand to lose about DKK 6,680 (about € 900) per year when the reforms are fully phased in (Ritzau 2012). Furthermore, the indexation of several social benefits will be postponed. This implies retrenchment as a way of financing the tax reforms and to foster economic growth. The latter two measures in particular produced fierce reactions from the Unity List, which protested against the retrenchment of benefits and formally withdrew their parliamentary support for the centre-left government (Gjertsen 2012).



The tax reforms thus consist of measures that were typical of TW governments in the 1990s. A number of measures specifically target the labour market (re-)integration of inactive and new social risk groups. Tax cuts are intended to foster growth, which in turn helps to sustain the welfare state's long-term financial health, even though some measures are financed in the short run by increasing the deficit. These are exactly the type of policies that early TW social democrats in Denmark and the Netherlands pursued (Green-Pedersen *et al.* 2001).

### *Emerging electoral dilemmas and trade-offs?*

Some of the old trade-offs, strategic challenges, and contingency dilemmas of TW politics are reappearing. Given Denmark's low electoral threshold (2 per cent), which allows for plenty of challengers, the Social Democrats are involved in a fierce electoral competition with the radical left (Unity List), the catch-all Liberal Party and the populist and welfare chauvinist right (Danish People's Party). The Unity List attracts voters on the left who are disappointed about the government's breach of promises, especially the decision to hit the passive social schemes and replace them with a host of severe and compulsory labour market measures. The Danish People's Party's social policy profile has shifted to the (old) left, thereby becoming more attractive for disappointed Social Democratic voters. It is telling that the Danish People's Party has admitted that limiting the unemployment benefit to two years was a mistake and now proposes to increase it by six months. The Liberal Party has become more attractive for labour market insiders, especially skilled workers, who were already disproportionately supporting the party in the 2011 elections (Stubager *et al.* 2013: 71).

So far, the Social Democrats have refused to go along with the populist demands on either the left or the right, in an attempt to keep the budget balanced and the economy competitive. Yet the new type of TW policies being pursued seems to have the same well-known drawbacks as the former version. The renewed TW is not paying off in electoral terms. Activation measures are unpopular and those directly or indirectly hurt respond instantly by turning away from the party, while those voters

who are in favour do not reward the party in equal measure. As a result, opinion polls indicate a massive haemorrhage of support from the party. The Social Democrats stood at around 30 per cent in January 2011, but were quickly losing their support and have been polling at a low 16-19 per cent since the summer of 2012. The Unity List has more than doubled its support and polls at 10-12 per cent. The Socialists have also suffered, falling from a high of 16 per cent back down to 6 per cent by September 2013. The Social Liberals' popularity has been steady at around 9 per cent.

While it remains an open question how long Danish social democracy will adhere to its current TW-style policies for electoral reasons, a departure from them yields another dilemma, namely the potential defection of its Radical Liberal coalition partner. The Radical Liberals always have the option to realign with the bourgeois parties on economic and welfare policies, hence removing the Social Democrats' only realistic chance of staying in office. Moreover, the Radical Liberals can also attract the winners of the reforms from among the new middle class, a possibility that helped originally motivate the Social Democrats to adopt TW platforms (see Arndt 2013: 210-212).

### **Comparative perspective**

Are other social democratic parties likely to follow the Danish lead? The Social Democrats' Swedish sister party, SAP, will likely follow a TW-style agenda if it regains office rather than returning to orthodox Keynesian demand management, passive social protection or other types of expansionary policies. Recently, four leading SAP politicians published an article on the renewal and modernisation of Swedish social democracy in the next 20 years (Löfven *et al.* 2012). Future SAP policies are to focus on jobs, education, and competitiveness. The paper highlights issues facing the social investment state, how to realise a well-educated labour force in the knowledge economy, and the 'no rights without responsibilities' paradigm, thus coming rhetorically close to the current policies of Danish social democracy observed in this study. Hence, it is likely that Swedish social democracy will follow the Danish path and adapt an updated TW platform in the future.

François Hollande's victory in the French presidential election of 2012, and the comfortable presidential majority that the left acquired in the parliamentary elections later that year, make France another interesting case for further study. However, French socialists never adopted the TW agenda in its first wave, and Hollande's statements on fiscal policy and deficit spending as a remedy for the fiscal crisis make it unlikely that France will go the Danish way.

A return of the TW in Germany depends on the internal balance of power within the SPD. While the SPD's chancellor candidate for 2013 Peer Steinbrück was definitely a representative of the reform-wing, and also an architect of the Agenda 2010 reforms, the election result of September 2013 might give the party's traditional wing more momentum to look for cooperation with the Left Party and to strive after more orthodox social democratic policies. The labour market reforms (Hartz reforms) of former SPD governments have been a success in the sense that they reduced unemployment, but have been criticised internally by the party's traditional wing internally, because they reduced social security in general and especially among labour market outsiders, which needs to be corrected. This points to discussions within the SPD whether to continue the successful TW strategy (in terms of unemployment and growth) or to discard TW-style policies to open for cooperation with the Left Party.

In the Netherlands, the surprising electoral comeback of the Social Democrats and their participation in government also points towards a possible return of the TW. The government cooperation with the Conservative Liberals excludes any overly Keynesian and expansionary economic and social policies. But in return, the Social Democrats have demanded that the new government fights what they label the hyper-flexibility of the labour market by strengthening the security side of flexicurity. Again, TW-style policies are likely to return.

The British Labour Party stresses the need to stimulate demand and redistribution, but has also introduced new concepts that seem close to TW thinking such as 'predistribution'. Hacker (2011), who introduced the term, defines its social and political importance: social democrats 'need to focus

on market reforms that encourage a more equal distribution of economic power and rewards even before government collects taxes or pays out benefits. This is not just because pre-distribution is where the action is. It is also because excessive reliance on redistribution fosters backlash, making taxes more salient and feeding into the conservative critique that government simply meddles with “natural” market rewards’. Ed Miliband (2012) has embraced this program, arguing that New Labour ‘was too silent about the rules that shape the way markets work’ and added: ‘Centre-left governments of the past tried to make work pay better by spending more on transfer payments. Centre-left governments of the future will have to also make work pay better by making work itself pay’. This is almost verbally identical to what Danish Social Democrats proclaim and therefore gives some indication that a return of central TW tenets is likely in Britain too.

In Sweden, Germany and the Netherlands, however, social democrats encounter a competitive context with trade-offs and contingency dilemmas similar to those in Denmark. In all four countries, social democrats have strong opponents on the left that compete with a traditional pro-welfare and social spending agenda. These parties are likely to win over voters disappointed with TW policies that combine labour market flexibility with social protection.

## **Conclusion**

This paper used a Danish case study to contribute to an analysis of whether social democrats returning to office adhere to the TW. The Danish Social Democratic party returned to office in September 2011 after a decade of opposition and with an agenda that promised a considerable expansion of the welfare state. Once in government, however, the party started to propose and implement a revised version of the TW welfare state reform agenda. Comparing the government’s policy with the classic TW toolkit, we find a remarkable similarity and consistency. Danish Social Democrats are implementing policies with the overarching goal of fostering the immediate labour market re-entry of previous labour market outsiders. Both politically and rhetorically, they focus on the educational and skill upgrading of vulnerable parts of the labour force and increasing possibilities

for qualification and training for those on unemployment benefits or social assistance. It has a special emphasis on getting young welfare clients into employment or education and training.

What can be learned from the Danish case? As our brief comparative overview outlined, we believe that other future social democratic governments in Europe will pursue many elements of the 'updated' TW we found in the Danish case. This is because many European countries face problems similar to, or even worse than, those faced by Denmark, and the more orthodox left-wing and Keynesian approach to addressing these problems pursued in France has (so far) proven unsuccessful. In this respect, the post-recession context has produced or made transparent problems similar to those to which the original TW was a response: structural and long-term unemployment, youth unemployment, wanting competitiveness, and lacking employability in parts of the workforce. While some countries with centre-right governments engage in some form of 'austerity governance', it is likely that future social democratic governments will follow the Danish lead and start reforming their welfare states in line with the original TW policies. From a social democratic perspective, problems such as youth unemployment and lacking competitiveness and employability cannot solely be met with cuts, retrenchment or low wage competition. Rather, the upgrading of the labour force and the activation of passive population segments to match the productivity standards and skill requirements of post-industrial society are put forth as the means to meet these challenges (Diamond 2012; Kenworthy 2012).

Thus, the Danish case has some indications for future social democratic governments and the direction of their reforms. While the actual adaption of the reforms will undoubtedly reflect country-specific idiosyncrasies, these governments will face similar trade-offs and challenges when pursuing TW reforms. Other Continental European countries have important traits in common with Denmark, such as proportional representation systems with left-wing contenders, the presence of populist right-wing parties, and a tradition of coalition governments. These characteristics condition the reforms in other countries and also affect their electoral repercussions.

Thus, although there will be variation in the ways in which other parties adopt these reforms, there will also be important common denominators, which have already emerged in the theoretical discussions on post-TW social democracy (e.g. Cramme *et al.* 2012; Cramme and Diamond 2012; Meyer and Rutherford 2012). These point to both a reinforcement and a critical review of central TW tenets, but not to the kind of overall farewell that was anticipated in all-too-early TW obituaries (e.g. Ryner 2010). A future social democratic policy mix might therefore concern, first, the tightening of eligibility criteria for passive schemes in such a way that they no longer constitute permanent traps for younger unemployed or provide attractive early exit options for older workers. To this will be added, second, an increasing stress on educational requirements and qualifications, often in combination with conditionality of benefits for younger claimants. Third, social democratic parties will behave much more critically towards unregulated markets, will be more aware of market failure, and will regard regulation of specific economic sectors (e.g. banking) to be necessary. The overly optimistic view of the benefit of unregulated markets, however, will not be replaced by a 'politics against markets' stance, but by a pragmatic view on the role of the market as an instrument to be utilised for social goals. Finally, as with the original TW, social democracy's policies will not pay off politically. The Danish case demonstrates that such policies have been unrewarded. It is the radical left and the populist right that gained momentum, exactly as occurred in the TW's first wave (Arndt 2013). Other social democratic parties following the Danish lead will most likely face similar trade-offs and political challenges.

In spite of these electoral repercussions, other social democratic parties returning to power are still likely to adopt a TW agenda. This is because, first, they all contain a wing that is ideologically committed to supply-side activation policies, and second, because the alternatives may in the long run prove to be at least as costly. As the French case of Keynesianism and old-school statism proves, voters do not reward governments that do not try to solve structural unemployment, lacking competitiveness and wanting employability. This is what the revised TW is committed to

ideologically and in terms of policymaking and for which, apparently, it is prepared to pay a considerable political price.

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