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*How Many Third Ways? Comparing the British, French and German Left in Government*

by

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**Abstract**

In the late 1990s, the European Left seemed to be once more in the ascendancy with Social Democratic-led governments in power in the majority of EU countries, including the United Kingdom, France, and Germany. At the same time, the debate about the so-called ‘Third Way’ — as an icon of the apparent electoral revitalization of European Social Democracy — rose to become the most important reform discourse in the European party landscape.

In Germany, the much heralded ‘Neue Mitte’ reform agenda of Gerhard Schroeder’s incoming new cabinet of 1998 owed obvious intellectual debt to the Blairite doctrine of the Third Way. Against this background, some observers claim to have identified a convergent trend within European Social Democracy, while others stress the importance of national contexts and point to distinct national profiles ranging from market-oriented New Labour to (what used to be) statist ‘Jospinism’. In this context, this paper seeks to set the policy agenda of Germany’s Red-Green government into a comparative European perspective.

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### **How Many Third Ways? Comparing the British, French and German Left in Government**

#### **1. Introduction**

When Gerhard Schröder formed his ‘Red-Green’ coalition in 1998, after a long period of dominance by the center-right, Germany joined the already sizeable majority of EU member states with Social Democratic-led governments. In the previous year, Tony Blair and Lionel Jospin became Prime Minister of the United Kingdom and France respectively – election victories which were at that time commonly interpreted as symbols of an ascendancy of the Left in Europe. At the same time, however, it was widely held that left governments had abandoned traditional policies in favor of a ‘Third Way’ between neo-liberal Conservatism – characterized by an exclusive focus on market forces – and statist policy approaches of the ‘old’ European Left (for the Third Way debate see Giddens 1998, 2000, 2001 and Finlayson 1999, Cuperus et al. 2001, Merkel 2001, Hirscher/Sturm 2001, Jun 2002, Unger et al. 1998). Arguably, the British New Labour Party (Blair 1998, Driver/Martell 1997, Schönwälder 2002, White 2001) was setting the pace for this expected race towards convergence with continental parties of the Left following suit. In particular, Gerhard Schröder is often singled out as one of the leaders joining the campaign under the Third Way banner (Blair/Schröder 1999), whereas Lionel Jospin is commonly portrayed as “scathing of something which claimed to be an alternative to socialism” (Fielding 2002: 21, Goes 2000, see also Jospin 1999). From a bird’s eye perspective, however, the degree of unity among European Social Democratic parties is seemingly ‘unprecedented’ (Sassoon 1999: 35).

Against this background, this paper sets out to analyze convergent trends as well as indications of persistent divergence in Social Democratic government policies in the United Kingdom, France and Germany between 1997 and 2002 (compare also Schroeder 2001). How have parties of the Left in the three major European nations used this ‘window of opportunity’ to leave their mark on national policy developments? Has this

new phalanx of incoming Social Democratic leaders given rise to an intensified phase of policy borrowing along the lines of the ‘progressive agenda’ of Britain’s New Labour government? Or have convergent trends been overridden by country-specific, ‘path-dependent’ factors keeping policy developments on distinct national tracks? In pursuit of these questions, the remainder of this chapter will review national policy patterns in three salient areas of government activity – although, given its scope, in a highly selective and cursory manner – which are meant to represent typical hallmarks of Social Democratic policies and relevant political problems for the governments concerned: first – related to the common and pressing needs to consolidate public finances – fiscal policies; second, privatization and marketization policies as a means to revamp the public sector, and, third, employment policies as a major component of the welfare state.

## **2. The Analytical Toolkit: Pressures for Convergence and Divergence**

Before perusing the empirical evidence of converging or diverging policy patterns among our three country cases, this section seeks to shed some light on potential factors in shaping national policy trajectories. Broadly speaking, the vast literature on institutionalist theories offers ideal-typically two contrasting views. First, one broad school of thought – often underpinned by functionalist and rational choice perspectives – submits to a ‘convergence thesis’ thesis assuming that more efficient policy solutions will over time replace less efficient ones. Sociological variants of the New Institutionalism lend further support to this ‘convergence thesis’, stressing the importance of diffusion and learning across countries in order to explain the widespread proliferation of similar policy approaches. On the one hand, this phenomenon of ‘isomorphism’ can be based on voluntary imitation (mimetic isomorphism) of a perceived superior model. On the other hand, however, this policy transfer may also be a function of the use of authority or power (coercive isomorphism), as is often the case with inter- or supranational organizations that require certain policy standards from their members. A second, opposing camp harbors a ‘persisting divergence thesis’ which highlights country-specific policy patterns and national styles of policy-making. This emphasis on the inertia of existing institutions and their constraining effect on government decision-making are

well-captured in the concept of ‘path-dependency’ supported by historical and normative institutionalist arguments. In order to operationalize these overarching theoretical discussions, we can identify the following categories of influential factors in defining the course and content of national policy developments.

*Globalization and European Integration:* As the dominant strand of the economic discourse on increasing international competition suggests, we can expect the factors of globalization and European integration to be major forces in shaping important British, French and German policy developments towards a convergent trajectory. Most likely, this convergent pattern will be displayed in regard to fiscal as well as tax and privatization policies which can be interpreted as responses to growing challenges in terms of international competitiveness in times of open markets and fast-moving capital flows. In the European context, this general factor of global competition has been significantly amplified and reinforced by the related process of regional integration, which in many cases provided the mold for new policy developments. As a consequence, the institutions of European integration, such as the Maastricht convergence criteria, the Growth and Stability Pact or the competition policy of the EU Commission, crucially determine the available range of policy options for national governments of EU member states.

*Electoral competition:* In line with classical theories of party political behavior, we can also turn to the logic of electoral competition in order to explain the degree of cross-national variance. As Kirchheimer (1966) suggested, ideological change in Social Democratic parties, i.e. the move towards centrist ‘catch-all’ positions, can be interpreted as a function of changes in composition of electorate, namely the shrinking size of the traditional working class, and the need to construct a new electoral base for Social Democracy by including sectors of the middle class (beyond the salaried public sector employees) and catering, as the late-1990s, to disillusioned Conservatives. From the perspective of the British Labour party, this strategy is facilitated, especially in ‘first-past-the-post’ system, by the lack of competition on the left. In the German case, however, the SPD faces some competition on the left from the Green Party and, in eastern Germany, the Party of Democratic Socialism. Turning to the case of the *Parti Socialiste*, the distinctive cleavage structures in ‘Latin’ European countries have to be

taken into account. Pointing to the rift between Catholicism and an anticlerical-progressive subculture, Hopkin (2000: 11) explains that in 'Latin' Europe "Social Democratic parties have continued to mobilize along the traditional (...) faultlines, precluding the need to dilute their ideology in order to maximize support in a homogeneous (...) electorate", hence the apparent reluctance of the *Parti Socialiste* to sign up to the 'Third Way'. Of course, this hesitant stance towards the 'progressive agenda' has also to be seen in the light of the role of the *Parti Socialiste* as a relatively moderate member of a multi-party left-wing coalition (for details see Szarka 2000).

*Party organization:* Kitschelt reminds us of the importance of internal party organizational dynamics for our understanding of programmatic developments. According to this interpretation, organizational structures and decision-making processes of political parties deserve closer attention and can be seen as influential factors in shaping party political discourses. Focusing on this organizational dimension, it has been argued that the more centralized the party, the more likely it is to offer centrist programs in an attempt to attract the median voter and win political office (Kitschelt 1999, Hopkin 2000). This capacity to move towards centrist reform programs, however, will be effectively constrained in cases when party memberships are socially rooted and/or ideologically motivated. Seen from this angle, the British Labour Party can be placed at the 'centralist' end of the continuum which provides far-reaching resources to the party leadership, whereas the *Parti Socialiste* may be the clearest example of relatively unstructured party organization with a lively factional dynamic as well as unpredictable shifts in the balance of power between the party wings as serious constraints of leadership autonomy. On this measure, the SPD takes a middle position with a strong organizational structure on the one hand, but far more limited control over the party organization in the hands of the party leader. This 'ranking' of political parties along the organizational dimension broadly conforms to our introductory observation with New Labour being the most centrist party and the *Parti Socialiste* the most reluctant to follow the 'progressive' agenda.

*Welfare regimes and industrial relations:* The three country cases represent distinctive types of welfare states (Esping-Andersen 1990, Arts/Gelissen 2002) which also have a decisive bearing on the institutional capacity to legitimize and implement 're-

commodification' strategies (Esping-Andersen 1996) as prescribed in New Labour's 'Third Way' model of 'contractual welfare'. In Bismarck-style insurance-based systems (corroborated by the principle of equivalence between benefits and contributions), for example, social contributions will be most likely look at as 'deferred wages' and claimants – as opposed to welfare recipients in tax-based systems – will be inclined to develop a sense of 'property rights' in regard to their welfare entitlements (Clasen 2000). In addition, the relatively high replacement rates of welfare benefits in Germany and France – geared to guaranteeing status-maintenance rather than only minimal standards of personal income – also means that the stakes for the constituencies involved are much higher and so are the incentives to support the existing system. Further obstacles for comprehensive and swift reform initiatives in the German and French cases can be attributed to relatively complicated decision-making procedures with a multitude of actors involved such as 'social partners' or federal and local government levels of governments.

As for industrial relations, the German case stands out for its long-standing corporatist traditions as characterized by strong trade union representation and comprehensive collective bargaining agreements covering the lion's share of the workforce. On this dimension, the British case can be situated at the opposite end, whereas French trade unions are particularly strongly represented in the public sector where they have been able to mobilize effective resistance against government plans in the way of privatization and deregulation measures or social security reform (Knapp/Wright 2001: 294).

*Government structures and state traditions:* It (almost) goes without saying that basic differences in the architecture of the political systems, types of executive government, and underlying cultural traditions have to be taken into account. In this respect, the differences between the majoritarian nature of the British system of government and the consensus-oriented features of the policy-making process in Germany are most striking. As for the latter, the institutional impediments (or veto points) to radical policy overhauls include the typical form of coalition government, an assertive parliament, the federal structure, and the bicameral system with its own peculiar tendency towards 'cohabitation'. Deeply-rooted state traditions come into play when we

look, for example, at the widespread support for '*solidarité*' and the still legitimate role for an interventionist role of the state in France or the 'social state principle' in Germany.

*Starting conditions and problem load:* Last but not least, we should not lose sight of the fact that the government policies respond to certain actual and/or perceived problems and have to be seen in the light of their political and socio-economic context. Consequently, we need to take the 'starting conditions' of national policy developments (e.g. the relative size of the public sector or the importance of state-owned industries in any given country) into account in order to arrive at an undistorted picture. The same holds true for other socio-economic factors pertaining to our policy domains in question. Policy responses to labor market problems, for example, should be expected to differ significantly in economies (such as the British) characterized by a highly-developed service sector, soaring youth unemployment and a comparatively poorly trained workforce as compared to a predominantly manufacturing economy (as in the German case) suffering from a high proportion of older, relatively well-trained unemployed.

### **3. Social Democratic Governments and Fiscal Policies: The End of 'Big Government' and 'Tax-and-Spend'?**

#### *United Kingdom*

While the Conservative cabinets in Whitehall tried hard to downsize the public sector – as measured by total government expenditure as a proportion of GDP – or at least to contain public sector growth, the New Labour government even did the Right one better by reducing the quota of government expenditure even further (for the statistical data see OECD 2001, 2002a, b as well as Hinrichs 2002, Giebel-Felten 2002). The percentage of general government outlays had been steadily on the decrease since 1993 (i.e. falling from 43.2 per cent to 38.9 per cent in 1997), and the numbers continued to drop until 1999 (37.1 per cent). Although public expenditure's share of the GDP is projected to hit the 39-per-cent threshold again in 2002, the United Kingdom is now closer to the US or Japan in terms of public sector size than to the average of her continental European counterparts. Similar findings are revealed if one sheds lights on the relative size of the

public sector workforce in the UK. Here, the share of public sector employment has fallen slightly to 12.6 per cent from an already rather low base of 12.9 per cent in 1997. The magnitude of British public sector change is easier to grasp if one compares the current figures to the data from 1990 or 1985 which show that roughly one-fifth of the total UK workforce used to be on the public sector payroll.

In regard to fiscal and economic policies, the return of a leader of the British Labour Party to the head of the cabinet table in Whitehall meant anything but a revival to classical Keynesian approaches (for general overviews see also Merkel 2001; Gray/Jenkins 1998-2002). The increasing international economic competition has made achieving credibility more rather than less important, particularly for an incoming left-of-center government which helps to explain Tony Blair's and Gordon Brown's (as Chancellor of the Exchequer) commitment to increased transparency in economic policymaking, and to 'soundness' through measures such as the independence of the Bank of England (Clift 2001: 64). Most significantly, the Blair-Brown budgetary strategy has represented a continuation, if not intensification, of the tight public spending discipline advocated by their Conservative predecessors in office. In fact, New Labour subjected its fiscal policies to the existing public spending plans of the former Conservative government (until 1999) and subscribed to the 'golden rule' according to which state borrowing should be no higher than and only be used for public investment and the ratio of government debt to the GDP should be kept at a 'prudent and sensible' level. As a result of this disciplined and reformist approach to public finance (going hand in hand with economic growth and decreasing unemployment), the gross financial liabilities of the British state have been drastically reduced since 1997 – from 50.7 per cent of the GDP to just below forty per cent in 2001. Similarly, the annual public sector borrowing requirements were cut to zero after the first fiscal year, and since 1998 the budget has been in surplus over the economic cycles.

However, Tony Blair's government was also voted into office on the grounds of earlier election campaign pledges to rebuild trust in the public sector and provide the necessary financial resources for improved public infrastructure networks as well as enhanced delivery of services. In acknowledging this responsibility of the government and making significant shifts in the public spending patterns, the New Labour strategy

deviates considerably from the Conservative legacy. In particular, public money has been redirected in substantial amounts to breathe some new (financial) life into the health, education and transport sectors. In those policy areas, there has been a sustained real growth in public expenditure of some five per cent annually since 1997 – partly, however, at the expense of current spending on social benefits. Despite the extra cash for the National Health Service and the transport system, the New Labour government has still a long way to go in order to bring those chronically ailing and underfinanced policy areas on par with the European average in the way of public investment.

On the revenue side, New Labour's tax policies have, all in all, followed the overarching aim to lift the general tax burden both for individual tax payers and business corporations (for details see HM Treasury 2002: Budgets 1998-2001). Starting from already – in European comparison – very competitive rates, the 1999 corporate taxes were (modestly) further reduced to the 30-per cent mark, followed in later years by additional tax cuts and incentives in particular for small and medium-sized enterprises (OECD 2002c). In a similar vein, the reduction of National Insurance Contributions paid by employers, also from 1999, cut the cost of employing workers on low and middle incomes. A notable exception from the general tax-reducing trend was the one-off 'windfall tax' that New Labour legislated – against fierce lobbying by privatized utilities – in 1997 on the excess profits made by privatized companies before firm regulation was put in place (see also Feigenbaum et al. 1999: 81). The proceeds from this tax were earmarked for spending programs related to the so-called 'New Deal'. As for personal rates and social contributions, wage earners in the lower income bracket have particularly benefited from recent changes in the tax and national insurance system. These changes include the introduction of a Working Families Tax Credit in 1999 which basically works as a minimum income guarantee for families with at least one full-time wage earner. Until the guaranteed level of income is reached, the household earnings will be augmented by the new 'tax credit'. Also, a new low-income tax bracket was created and the basic rate of income tax was cut. Finally, New Labour's policies resulted in reduced national insurance contributions for low-paid self-employed and employees, underpinned by a recent move to increase the threshold above which employees have to pay national insurance contributions.

## France

On the continuum of public sector size in Europe, the French state can almost be placed at the polar end opposite to the British case (OECD 2001, 2002a, b). In fact, the state apparatus consumes almost half of the GDP and employs – very much like the ‘unreformed’ British public sector used to – more than twenty per cent of the total workforce. Against this background, the French case only narrowly disqualifies for the ‘Nordic group’, notably Sweden and Denmark, which stands out for its comprehensive public sectors. However, the Jospin government managed – mainly supported by a growth of economic output well above the EU-average in 1998 and 1999 as well as a considerable drop in unemployment in its wake – to keep total outlays just below the 50-per-cent threshold since 1998 (49.9 per cent; 48.6 per cent in 2001), whereas the right-wing predecessors in office had to accept the highest figures so far in French postwar history (51.8 per cent in 1993). In regard to public service employment, the French case differs significantly not only from British experience but also from current trends in other OECD countries inasmuch the percentage of government employees – starting from an already high level – has recently been further on the increase. In the past decade, the number of public servants has risen by some ten per cent which can be largely attributed to widely expanded job creation programs of the Jospin government to fight unemployment especially among young people (Pauron/Quarré 2002). Apparently, the government of the ‘plural Left’ assigns to the state sector a role as an employer of second resort.

After the surprise election victory in 1997, the coalition of *‘la gauche plurielle’* inherited from the right-wing government under Prime Minister Juppé a set of financial dilemmas on their way to French EMU membership. After all, it was the delicate issue of social security reform and budgetary consolidation which provoked a series of public sector strikes in 1995 and 1996 and eventually defeated the then right-of-center government (Knapp/Wright 2001). Lionel Jospin was quick to reaffirm France’s commitment to the rules which governed the EMU process and refrained from any free-spending ways of the *dirigiste* Left (Hall 2001, Levy 2001). Looking at the consumer

price index, this policy commitment of the left-of-center government contributed its share to keep inflation in France well below the EU-11 average during its term of office. While the public deficit dropped from 3.0 per cent of the GDP in 1997 to 1.6 per cent two years later, the budget never turned into a surplus during the Left's rule in France and public sector borrowing requirements remained fairly stable around 1.5 per cent of GDP until 2001. And yet, in 1999, the weight of state debt decreased (modestly) for the first time in twenty years from 59.5 to 58.5 per cent of GDP (OECD 2002b, Giebel-Felten 2002).

The evolving pattern of public spending under Jospin and his Minister of Finance Dominique Strauss-Kahn shows the clearly visible imprint of the 'plural Left's' understanding of social equity and progress (Levy 2001, see also Palier 2000). In particular, three major social reform projects stand out of Jospin's policy agenda. First, the government, mainly represented in these policy fields by Martine Aubry (Minister for Employment and Social Affairs) as political counterpoint to Strauss-Kahn, committed itself to a universal health care system and made provision for an extension of health care to the remaining 0.4 per cent of the population (some 300,000 people) without access to the so-called *regime general*. Secondly, a massive program to counter youth unemployment by means of 'assisted jobs' (*emplois aides*) was launched. Most of the government's reform zeal and energy, however, had been absorbed by the initiative to limit the working week to 35 hours (without loss of pay, of course) which was coupled with generous subsidies for industry (Hall 2001, Naudin/Marian 2002).

Where the French case more clearly diverges from the overall trend in the countries under investigation is the approach of the 'plural Left' towards tax policies (Merkel 2001). In order to meet the tight budget requirements in the light of the European Monetary Union, the pro-European Minister of Finance, Dominique Strauss-Kahn was prepared to raise tax rates – especially those which affected the target constituents of the Right (Levy 2001). As a case in point, the rate of corporate tax was increased to 42 per cent in 1998, thus going even beyond the comparatively high German corporate tax rates of that time (OECD 2002c, Hall 2001). In a more subtle move to shift the tax burden from low-income groups to the upper brackets of the tax scale, the Jospin government doubled the supplementary income tax (*contribution sociale generalisée*, CSG) which is also levied on earnings from capital and property. This additionally generated revenue

allowed the government coalition to minimize worker contributions (from 5.5 per cent to 0.75 per cent) to health insurance (Levy 2001, Palier 2000). Having experienced relatively strong economic growth during the first half of its term in office, and inspired by German reform moves, the Jospin government introduced a series of tax cuts, including reductions for the less well-off as well as gradual decrease in the rate of corporate taxation to 33.3 per cent (Hall 2001: 185). In addition, the French leftist government introduced a financial and social reform component into the tax system that aims to increase the competitiveness of businesses without reducing social benefits. Thus, income-related contributions to health insurance were almost entirely abolished, with the social deduction from almost all forms of income, CSG, being correspondingly raised instead – means a reduction in non-wage labor costs and incorporation into the financing of the welfare state.

### *Germany*

As a consequence of the peculiar German model of welfare services provision, the public sector falls into the ‘transfer-heavy’ category, yet at the same time is among the ‘leanest’ government sectors in the ‘OECD world’ in terms of public sector manpower (OECD 2001, OECD 2002b). Over the past decade, public sector consumption has accounted for roughly 46 per cent of the GDP – regardless of the colors of the government coalition in power. More recently, however, the Federal Republic has lost some ground in comparison to other member states of the Euro zone with the share of total government outlays for the first time raising above the ‘EURO-11 average’. Looking at the numbers of staff employed by public authorities, the percentage of GDP has slightly decreased since the Red-Green government took office (12.3 per cent in 1999), and now even undercuts the figures for the United Kingdom.

In marked contrast to the well-coordinated fiscal policies at the cabinet tables, represented by political leaders like Blair-Brown or Jospin-Strauss-Kahn in London and Paris, the tandem of Schröder and Lafontaine apparently lacked, to say the least, the final touch of congeniality (see for example Braunthal 1999, Camerra-Rowe 2002). While Chancellor Schröder emphasized the need to cutback on deficit spending, his Minister of

Finance and party chairman during the first six months in office was toying with a more relaxed attitude towards demand-side strategies. Oskar Lafontaine also sought to build up political pressure on the European Central Bank – with support also from the French government – to cut interest rates. After Lafontaine's sudden resignation in March 1999 from his government and party political posts, Chancellor Schröder regained the upper hand over the principles of sound budgetary policies and Hans Eichel as the newly-appointed Minister of Finance tried his best to create for himself a well-cultivated image as the nation's technocratic '*Sparkommissar*'.

In contrast to the unitary politico-administrative systems of France and the United Kingdom, however, the German federal government has much less direct leverage on total public sector expenditure. Rather than controlling more than seventy (United Kingdom) or sixty (France) per cent of general outlays, the Federation has jurisdiction only over roughly a quarter of the expenditure level. If one singles out the federal budget, the generally cautious approach of the Red-Green government towards fiscal policies becomes more apparent. The share of the federal budget has been stabilized at the level of 12-per-cent of GDP, thus reaching an historical low over the last forty years (Hinrichs 2002). After three consecutive years of budget retrenchment from 1995-1997, however, the incoming Red-Green government expanded federal spending by 3.4 and 5.7 per cent respectively during their first two years in office. In 2000, Hans Eichel used the proceeds from the sale of mobile telephone licenses (UMTS) as a 'godsend', mainly to write-off public debt and to bring the federal budget briefly into a surplus. More recently, the federal government agreed with *Länder* and local authorities to a concerted action plan (*Stabilitätspakt*) – mainly propelled by the prospects of receiving of letter of warning from Brussels – to reduce net borrowing by the federal government to zero by 2006. Currently, however, Germany lags behind the United Kingdom and France in regard to both budget deficit (2.7 per cent of GDP in 2001) and total public sector debt (60.1 per cent of GDP in 2001) – with the current percentages being reminiscent of the 1997 figures.

The overall federal spending pattern of the Red-Green government coalition shows a high degree of continuity if compared to the expenditure record of their right-of-center predecessors in office. This finding holds particularly true for the overall level

social spending (Bundesministerium für Arbeit und Sozialordnung 2002). Within this spending category, however, the Red-Green government's expenditure plans have accorded more relative weight to subsidies and tax allowances for families, whereas slightly less money has been spent on employment programs.

Turning to the revenue side of the budget, the move from the opposition to the government benches has in some important respects also led to a considerable shift of Red-Green tax policies in favor of a more centrist and, in the wording of 'Third Way' advocates, 'progressive' stances. The concern over Germany's competitiveness as a location for business and the related soul-searching debate ('*Standortdebatte*') during the 1990s had increasingly pointed to need to overhaul the tax system so as to align corporate tax rates and the upper tax brackets of personal income tax with those in other European countries. In response to those domestic and international pressures, the Kohl government in what should become its last year in office drafted legislation for a tax cut which was eventually defeated – on the grounds that it would be generous to high income earners – by SPD-led *Länder* in the Federal Council. In the following year, however, the Red-Green majority legislated an even more comprehensive plan which provided for a step-by-step tax relief for all income brackets stretched over the legislative term (see also Camerra-Rowe 2002). Moreover, the Red-Green government also passed significant cuts in corporate taxes in 1999 which lowered the central government corporate income tax rate from forty to twenty-five per cent – only three percentage points above the bottom line of corporate tax rates in the European Union (i.e. Luxembourg, see OECD 2002c). In sum, the Red-Green government was able to deliver the largest tax cut in the history of the Federal Republic – something the previous center-right government failed to achieve. In order to achieve the second goal of reducing the level of social insurance contributions, the new coalition government raised new revenue through the new energy or ecological and dedicated this extra income for federal subsidies to the pension fund.

#### **4. Pruning back the State: Privatization and Deregulation**

##### *United Kingdom*

Despite the common characterization of the British societal and economic traditions as showpieces of a liberal-individualist, market-oriented and ‘stateless’ culture, during the long period of ‘postwar consensus’ governments of both political complexions had cherished a strong and comprehensive sector of nationalized industries (organized as public corporations) as an integral part of the ‘mixed economy’ until the advent of Thatcherism in 1979 heralded in the ‘end of consensus politics’ and a dramatic shift towards denationalization set in (Feigenbaum et al. 1999). What used to be a sizeable sector of state-owned enterprises and public utilities was reduced to less than a quarter of its original size. While the first round of Conservative privatizations targeted at industrial assets in the competitive sector of the economy, the denationalization process quickly gained momentum after the 1984 and 1987 election victories and included major public utilities such as British Telecom (1984), British Gas (1986), the British Airport Authority (1987) as well as the water (1989) and electricity supply industries (1990/91). The sale and disintegration of British Rail (1994) marked the end of a vigorously pursued privatization strategy under Conservative (Thatcher and Major) governments.

This almost relentless quest for pruning back the state in terms of public ownership has effectively quenched the thirst for further major privatization initiatives in the United Kingdom. Looking at the ‘face value’ of new sales of publicly-owned assets in OECD countries, in fact, the New Labour government appears to be particularly cautious and timid in its privatization policies (OECD 2002d, Gray/Jenkins 1998, 1999). However, Tony Blair’s cabinets have fully accepted and preserved this Conservative heritage and eschewed from any major effort to reverse the trend towards marketization. Rather than raising the issue of public ownership again, New Labour takes a strong interest in regulation of privatized utilities. So, the Blair government was most reluctant to take the failing RailTrack company back into public sector responsibility (2001) after mounting public criticisms in the wake of major train crashes. Even in view of the limited inventory of public assets that remained after the Conservative era, the sale of minor

assets has continued (Gray/Jenkins 2000, 2001, 2002). However, fiscal considerations (i.e. the need to raise additional revenue to finance extra investment in ailing public services) seem to have won the upper hand over ideological concerns of redrawing the boundaries of the state. This consideration may also help to explain the reluctance to privatize the highly profitable Post Office which currently serves as a cash cow for the Chancellor of the Exchequer (Gray/Jenkins 2001, 2002). These budgetary considerations dovetail nicely with the Private Finance Initiative that Gordon Smith inherited from the Conservative government and continue to use to attract private moneys for public infrastructure. New Labour also remains fully committed to the neo-liberal variant of public sector reform in view of the quest for marketization of local public services.

### *France*

Across the Channel, the French Left has traditionally shared their strong commitment to extensive nationalization programs with the British (old) Labour party (Feigenbaum et al. 1999, Cole 2000, Machin 2001, Knapp/Wright 2001). This attachment to the extension of the public sector and the highly developed trust in the socio-economic steering capacity of the central state apparatus resonated well with the French *'dirigiste'* state tradition which legitimizes a particularly interventionist mode of government activities. In view of this underlying notion of a strong state, shared by party alliances of the Right as well as the Left, it does not come as a surprise that at the end of the *'trente glorieuse'* the sector of state-owned enterprises in France claimed a top rank in the European league table (Smith 2002). When the first socialist government of the V. Republic took office in 1981, it was committed – in stark and deliberate contrast to the Thatcherist reform agenda of that time – to further massive transfers of commercial and industrial assets into public ownership, thus bringing the total volume of publicly-owned enterprises in France to a new all-time high (Feigenbaum et al. 1999, Smith 2002). As a result, this sector included a wide array of firms in such industries as automobiles, chemicals, electronics, steel, aeronautics, air transport, insurance, banking, not to mention such public utilities as Gaz de France (GDF) and electricity (EDF). Since then, the issue of public ownership has been a bone of contention between the party alliances of the Right and the Left. While the

incoming Chirac government in 1986 aimed at reversing the latest round of nationalizations with great political zeal, this policy issue fell largely dormant after the return of the Socialists to power in 1988 and eventually reappeared on the government's agenda under the leadership of Prime Ministers Balladur and Juppé (Feigenbaum et al. 1999, Machin 2001, Guyomarch 1999, Cole 2000, Smith 2002).

Although Jospin distanced himself during his election campaign clearly from any further privatization measures, he turned to a much more pragmatic, if not favorable stance towards denationalization during his term of office. After four years in government, the 'plural left' had practically completed the ambitious privatization projects of earlier right-of-center governments. In fact, the sale of firms and stock raised – after careful consultations with the trade unions involved – more value than all privatization measures from 1986-1997 taken together (Knapp/Wright 2001). While the sheer numbers point to the conclusion that the French privatization program under Prime Minister Jospin is only second to the comprehensive and ideology-driven denationalization project of the British Conservative governments, a closer look at the underlying strategies and implementation process may open up a different perspective (Smith 2002, Cole 2000, Knapp/Wright 2001). In particular, the 'opening of capital' – as the sell-off of state-owned company shares was euphemistically referred to – was a major step in reconciling the perceived need to foster strategic alliances with foreign companies in response to the pressure from international competition. Also, the carefully planned and gradually implemented sales were used to increase cross-shareholdings between leading French firms or – especially in view of financial services – to give a boost to the French mutual sector. More fundamentally, the socialist government took particular care to maintain a strong, if not always majority, representation among the shareholders. Seen from this angle, the process of privatization under the Jospin's government was devised and administered in a *dirigiste* fashion in order to reinforce and even widen the government's relationship with the business community.

What also sets the French drive towards privatization apart from its British counterpart is the focus on what used to be considered the competitive sector of the economy whereas public utilities remain largely in the realm of state ownership. In this respect, the deeply entrenched notion of strong public services and government-owned

national monopolies has left its visible mark on Jospin's policies. This influence of traditional state orientations is also openly displayed in the government's stance towards EU competition rules which have frequently met the fierce resistance of the French government. After the grudgingly accepted liberalizations of the telecommunication and air transport markets, the Jospin government mounted strong opposition against the deregulation of the electricity supply industry and only in 1999 made provision for a partial opening up of this market. With more success at the Brussels negotiating table, French pressure resulted in a virtual halt of the EU liberalization program in regard to postal services until 2003. Interestingly, in this decision the German Red-Green government sided with Jospin's administration (Smith 2002).

### *Germany*

In striking contrast to the British and French experience, German federal governments, including those led by the SPD, have never been enthusiastic 'nationalizers' in the first place, so that the overall privatization profile at the federal level of government appears in comparative perspective to be only of moderate scale. Nonetheless, in tandem with a general shift towards neo-liberal thinking and according to the leitmotif of the 'lean state', during most of the 1980s and 1990s federal governments placed particular emphasis on selling off the remainder of its industrial assets. In doing so, the Kohl cabinets also finished the business started in the early 1960s when large industrial firms such as Volkswagen and VEBA (in an early and short-lived attempt to bring about 'popular capitalism') were partly privatized. More importantly, the mid-1990s also witnessed – supported from both sides of the party political spectrum – the corporatization of federal railroad (*Deutsche Bahn AG*, 1993) and postal services (*Deutsche Post AG*, 1994) on the one hand, and the first partial privatization of telecommunication services (*Deutsche Telekom AG*, 1996).

After taking office in 1998, the Red-Green government, by and large, followed the well-trodden path of moderately pursued privatization policies under Helmut Kohl's chancellorship (see for the following Bundesministerium der Finanzen 2001a, b). The cabinet under Chancellor Schröder repeatedly reiterated its commitment to reducing

public ownership as an important policy goal of the federal government's 'activating state' agenda, without, however, showing any enthusiasm in pursuing proactive privatization or deregulation strategies. In particular, however, the government refers mainly to fiscal considerations as guiding policy objective. As a consequence, the proceeds from selling off state-owned assets are principally earmarked for federal debt relief. During the four years in office, a number of significant transactions involving the federal government's direct and indirect holdings were undertaken. The largest transactions include the partial privatization of the postal services and a reduction of state holdings in *Deutsche Telekom* due to a raise of company capital. Other privatization measures go largely unnoticed, although they amount to a systematic disengagement of the federal government from (oftentimes minority) holdings in major infrastructure projects such as the Hamburg or Frankfurt Airports. Pressured by EU directives, the Red-Green government also took additional steps in opening up infrastructure networks (e.g. gas supply, railroads) – yet too late and too limited from the point of view of the EU Commission which recently decided – as it did with France in 2001 – to take Germany for this non-compliance to the European Court Justice. The Red-Green government also displayed its less than enthusiastic support for outright market liberalization when it sided with France in prolonging the monopoly of postal services.

## **5. Employment Policies: Towards an 'Activating' Welfare State?**

### *United Kingdom*

The core of the New Labour strategy of welfare reform as epitomized in the 'New Deal' initiatives and the 'Making Work Pay' program can serve as prime examples to illustrate the major thrust of 'contractual welfare' models (see for the following Alcock 2002, Rhodes 2000, Clasen 2000, Schmidt/Picot 2001, Schönwälder 2002). Ranking already high in the 1997 election manifesto, the so-called New Deal has since become a cornerstone of New Labour's welfare and, in particular, employment-benefit policy. In practice, this Blairite notion of 'contractual welfare' translates into a peculiar mix of incentives and coercive instruments. On the one hand, the New Deal offers the 'carrot' of

usually six months of government-subsidized work experience and/or training (for up to 12 months) (in both the private and non-for-profit sectors). The initial program budget provided financial assistance for up to 250,000 young unemployed people. During this period of time program participants are eligible to income support in the amount of the regular 'Job Seekers Allowance' (JSA). On the other hand, the young unemployed were left with no other choices but to comply with one of the options offered to them or to lose their entitlement to income support altogether (Rhodes 2000, Clasen 2000). Originally designed to target the young unemployed, this policy approach was later extended so as to cover also the long-term unemployed over the age of twenty-five. Additional 'New Deal' programs have been established to address the problems of unemployed lone parent, non-working partners of the unemployed and disabled people. The latter three New Deal variants, however, differ from the original concept inasmuch the program is primarily based on voluntary participation rather than government compulsion (Schmidt/Picot 2001).

The New Deal initiative goes hand in hand with a number of accompanying measures which tend to reinforce the drive 'from welfare to work'. The major component of this strategy is the 'Making Work Pay' program which is in turn primarily based on a radical package of tax and benefit reform designed to provide incentives to overcome the 'employment trap' situation by making low-paid jobs economically viable. Introduced as the "Working Family Tax Credit" (and based on the existing 'Family Tax Credit'), this New Labour project guarantees working families a minimum income above and beyond the minimum wage. Also, the tax burden on working families has been considerably reduced, thus raising the effective point at which they begin to pay income tax to the highest level since the 1960s. In other aspects of family-related policies, the 'carrot-and-stick' approach towards welfare reform is more pronounced. As a case in point, the benefits for jobless single mothers have been reduced, while at the same time new opportunities in the way of training and child care services have been offered so as to encourage their reintegration into the labor market (Rhodes 2000, Schönwälder 2002).

This strand of New Labour welfare state reform can be easily traced back to a long-term trend in British social security reform initiated by the Conservatives in the late-1980s. While the Thatcher and Major governments set the tone in restricting

incrementally the insurance rights for the unemployed, making benefit payment conditional on a job-seeking behavior (Job Seeker's Allowance Reform), and tightening controls and sanctions for non-compliance, the New Labour governments put the logic of welfare entitlements on a new footing by making the 'give and take' principle central to their reform approach (Clasen 2000, Alcock 2002).

While the major thrust of the 'Blairite' reform agenda seems to reinforce a number of previous Conservative 'in-work' welfare initiative, there is also another discernible policy strand which resonates more with the classical, regulatory 'social democratic' approach towards employment policy. Most significantly, the government introduced the National Minimum Wage in April 1999 for employees twenty-two and older. This measure resulted in substantive pay rises for more than two million workers and was also an essential element in fighting the immense poverty problems in the United Kingdom (Schönwälder 2002, Rhodes 2000). Additional pieces of employment legislation have been enacted to comply with EU directives and created new rights (or better: minimum standards) for workers in regard to working time limits, increased protection against dismissal and access to statutory grievance and consultation procedures in firms. One should be quick to make mention to the fact, however, that this recent development has started from a very low base of union and workers' rights and that the labor market has been left – by European standards – largely deregulated.

### *France*

The French 'plural Left' was united in their emphasis on the need to increase employment and, in fact, the Jospin government made employment promotion a policy priority (Levy, 2001, Hall 2001, Beland/Hansen 2000, Palier 2000, Naudin/Marian 2002). Whereas state-subsidized employment measures are conspicuously absent in the United Kingdom, French socialist policies, mainly drafted in Martine Aubry's ministry, assigned a major role in job creation to the state. In response to the alarming youth unemployment figures, the government put forward an initiative to create 700,000 new jobs for young people over a five-year period, half of which were supposed to be provided by public sector institutions. For this purpose, many new positions in social and health services,

education or public transport have been created. In total, however, as much as eighty per cent of the wage and non-wage costs would be financed by state-subsidies. As a consequence, the French government between 1997 and 2000 devoted considerably more public funds to subsidized employment (on average more than 0.4 per cent of GDP), particularly for regular employment in the private sector, than their German (roughly 0.3 per cent) or British counterparts (0.01 per cent of GDP) did (OECD 2002a). Another sizeable part of French employment-related public expenditure goes to state-subsidized early retirement schemes in an effort to reduce labor supply, thus lifting part of the strain from the labor market.

In addition to this state-centered ‘heavy-spending’ component, there appears to be a complementing ‘heavy-regulatory’ approach, too. In fact, the reformist zeal of the first three years in office was largely invested in new legislation to reduce the statutory working week from thirty-nine to thirty-five hours for all employees in companies with more than ten employees starting in the year 2000. This measure severely strained the government’s relations with the employers’ associations, but Prime Minister Jospin was prepared, again, to provide generous subsidies to make it easier for companies to swallow the bitter pill (Levy 2001, Hall 2001).

Looking from another angle, however, the employment and welfare reform program of the Jospin government also contained strong elements of the supposedly ‘progressive’ agenda which owe their existence as much to ‘home-grown’ developments as to policy-borrowing from abroad. This peculiar cross between more traditional French understandings of citizenship and ‘*social solidarit *’ on the one hand, and transfers from American and British ‘workfare’ instruments can be well illustrated by reference to the *Revenu Minimum d’Insertion* (RMI) program. This initiative was launched back in 1988, when the then socialist government – supported by a unanimous vote in the National Assembly – designed a new re-integration program for the long-term unemployed (Palier 2000, Beland/Hansen 2000). Ten years later, the Jospin government reaffirmed its commitment to this policy tool – again backed by the political right – and extended the reach of the program. On the one hand, this policy includes work or training requirements (lasting for up to eighteen months) as a condition of receiving the guaranteed minimum income and alludes also to the language of ‘contractual welfare’ (*les contrat employ-*

*solidarité*). On the other hand, however, the French notion of ‘inclusion’ is grounded “in society’s responsibility to ensure the individual’s integration into society and the labor market, rather than the individual’s responsibility to pay for welfare benefits with his or her labor” (Beland/Hansen 2000: 57). Nevertheless, Prime Minister Jospin developed the underlying rationale of ‘making work pay’ further along the ‘New Labour’ lines and introduced an ‘employment premium’ which allows those claimants of RMI who take up jobs to retain a portion of these benefits. Modeled upon the UK example, the recent reform – combined with other welfare changes (like housing benefits) – is geared to overcome the unemployment trap and encourage part-time or low-paid employment.

### *Germany*

What sets the policy approach of the ‘New Center’ apart from the major thrust of the ‘workfare’ reforms associated with the creed of ‘Third Way’ protagonists is the heavy reliance of the Schröder government (in continuation of previous policies under the Chancellorship of Helmut Kohl) on state-subsidized employment measures in combination with a strong defense – in line with deeply-rooted traditions of the Bismarckian insurance-based benefit system – of welfare entitlements. This tendency is well reflected in the pattern of employment-related public expenditure which not only shows a relatively large share of GDP going to unemployment compensation (ranging from 2.28 per cent in 1998 to 1.90 per cent in 2001), but also a comparatively high proportion of GDP being spent on active labor market programs (1998: 1.27 per cent; 2001: 1.20 per cent) (OECD 2002a). A particularly highlighted project of the Red-Green active labor market policy is the JUMP action program which – as part of a larger European initiative – caters to young unemployed under the age of twenty-five, with a notable focus on the East German *Länder*. Originally devised for some 100,000 youths in 1998, the government claims this policy approach as a success story and points to its apparently increasing popularity with by now more than 300,000 program participants (Schmidt/Picot 2001). At first sight, this initiative appears to be broadly similar in outlook to the British attempt to fight youth unemployment, since it also offers individual counseling, training opportunities and subsidized work experience. It differs, however,

most significantly from the UK model as it is based on the voluntary cooperation of program participants, thus lacking the coercive 'quid pro quo' elements of the New Deal and its automated mechanism to 'recruit' new participants. The newly-legislated 'Job-Aktiv' program (2002) also borrows from the language of 'contractual welfare' by emphasizing the use of 'contracts' between claimants and their local labor office – again, however, more as a tool to individualize and improve the placement services of the employment agency as opposed to compulsory tendencies.

To be sure, employment offices have the discretion to sanction benefit claimants who are not willing to accept 'suitable' training or job opportunities and, as a matter of fact, the previous right-of-center government had sought to restrict unemployment entitlements and taken steps to redefine the set of 'suitability criteria' in order to increase pressure on job seekers (Schmidt/Picot 2001). The same holds true for statutory changes in the provision of social assistance benefits which reaffirmed the right of local authorities to put the claimant's 'willingness to work' to the test and, in the negative case, to reduce benefit payments. In practice, these measures differ not only in degree from mandatory activation programs of the New Labour fashion and have not yet produced a major change in administrative or job seeker's behavior (Clasen 2000). Moreover, the Red-Green government revoked some of the previous reform steps, thus further distancing itself from a clearly 'activation'-driven welfare strategy (Schmidt/Picot 2001).

On the side of strengthened employment rights and welfare entitlements, the Red-Green cabinet did away with a number of marginal cost-saving and deregulatory reforms introduced by the previous center-right government coalition (Camerra-Rowe 2002). For example, full sick pay benefits were reinstated (which in practice affected only the small minority of workers who had not enjoyed this entitlement as part of their collective bargaining agreement) and statutory rules for lay-off requirements in small enterprises – which even after the moderate Conservative reform steps qualified as one of the strictest set of job protection measures in the European Union – were tightened again. The impact of this roll-back of earlier reforms on the labor market, however, should by no means be overestimated since only a small percentage of the workforce would be classified as direct beneficiaries of the changes in legislation. Despite the somewhat symbolic nature of the measures, they set an important tone for one particular part of the Red-Green

government's reform strategy, which is mainly devised to reward the traditional labor union constituency. The extension of rights for trade union representatives in the 'co-determination' procedures as governed by the 'Corporate Governance Law' (*Betriebsverfassungsgesetz*) falls into the same camp.

Turning to policy measures geared at making 'work pay' and deregulating the low-pay sector of the economy, the track record of the Red-Green project is highly ambivalent and hardly headed in New Labour's direction. On the one hand, some progress has been made – thanks to the 'ecological' energy tax as a new source of government revenue – in reducing non-wage labor costs by lowering social contributions for the pension scheme. At the same time, the decrease of the basic rate of personal income tax as well as the increase of the threshold above which income tax is paid helped those on lower incomes keep significantly more of what they earn. On the other hand, the Schröder government reinforced and expanded the regulatory framework of the German 'social insurance state' in regard to low-pay jobs and existing gray areas of self-employment. This policy commitment led to less flexible and financially less attractive tax and contribution regulations for what used to be '630-DM' job category. In a similar vein, the regulatory framework and controls were tightened so as to crackdown on so-called 'quasi self-employed' who are in essence oftentimes dependent employees only formally guised in the status of self-employees in order to lower non-wage labor costs (*Scheinselbständigengesetz*).

## **6. Concluding Thoughts**

The findings from three policy areas show clear signs of convergent trends in important aspects of government behavior, but the emerging national patterns of fiscal, privatization and employment policies are still highly distinctive. On the one hand, transnational forces have effectively worked towards a considerable degree of policy diffusion and, perhaps most importantly, an increasingly similar rhetoric of policy discourses, thus legitimizing new policy shifts in the direction of the 'progressive agenda'. In addition to this policy mimicry, there has also been a significant portion of 'coercive isomorphism' as a consequence of EU policies, most notably in the fields of competition, monetary and

fiscal policies. Undoubtedly, the New Labour government (while currently outside the EURO-11 zone, but apparently aspiring to join the single currency) has also been affected by a considerable degree of 'spillover'. These constraints have placed apparently insuperable obstacles for left-of-center governments to drastically expand social welfare programs or spur employment by counter-cyclical deficit-spending. On the other hand, however, earlier policy choices as well as established institutional arrangements pose major barriers in the way towards policy convergence on the Blairite understanding of the Third Way. Similarly, the logics of organizational politics and electoral competition seem to do their share to keep within country-specific policy corridors.

While the British Labour Party has more readily embraced market-oriented reform strategies with a strong neo-liberal tinge on all accounts, the French *Parti Socialiste* in government harbored well articulated suspicions against a centrist or 'progressive agenda', although making significant concessions to the 'Third Way' creed at the same time. On various dimensions (such as the extent of public ownership or the leaning towards Keynesian macro-economic management), the German SPD was already closer to the Third Way position from the outset, but particularly in view of welfare-oriented policies major path-dependent differences remain. More generally, the degree of convergence seems to be decreasing as we move from budgetary principles to policy stances towards deregulation and privatization policies and, finally, to reform measures in the employment sector. In the latter case, the reform trajectories are heavily determined by country-specific political, social and economic conditions.

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