

European Social Democracy and the Third Way: Convergence, Divisions and Shared Questions

Frank Vandenbroucke

Taking a long-term view of social-democratic history, Donald Sassoon argues, convincingly, that we witness "an unprecedented, Europe-wide convergence of the parties of the Left" (1998, p. 92). There seems convergence of a short-term nature too. Read a sample of the European literature on the welfare state published over the last five years by centre-left policy institutes, parties and scholars. In chronological order, you may start with the report issued by the British Commission on Social Justice (1994), and end by reading the chapters on the German welfare state in the report published a few months ago by the "Zukunftskommission" of the social-democratic Friedrich Ebert Stiftung (1998). Despite important national differences, you will be struck by the recurrence of the following fixed points, on which many social democrats seem to agree:

- 1) Welfare policy cannot be reduced to employment, but employment is the key issue in welfare reform. Moreover, the nature of the employment objective has changed. "Full employment" as it was conceived in the past in most European countries, underlying traditional concepts of the welfare state, was full employment for *men*. The social challenge today is full employment for men and *women*. This is linked to the transformation of family structures and our conception of women's role in society. It points to the need to rethink both certain aspects of the architecture of the welfare state and the distribution of work over households and individuals as it spontaneously emerges in the labour market.
- 2) The welfare state should not only cover social risks as we traditionally defined them (unemployment, illness and disability, old age, child benefits). It should also cover new social risks (lack of skills, causing long-term unemployment or poor employment, single parenthood) and new social needs (namely, the need to reconcile work, family life and education, and the need to be able to negotiate changes within both family and workplace, over one's entire life cycle).
- 3) The "intelligent welfare state" should respond to those old and new risks and needs in an active and preventive way. The welfare state should not only engage in "social spending", but also in "social investment" (e.g. in training and education).
- 4) Active labour market policies should be higher on the agenda and upgraded, both in quantity and in quality, by tailoring them more effectively to individual needs and situations. Active labour market policies presuppose a correct balance between incentives, opportunities and obligations for the people involved;
- 5) Taxes and benefits must not lead to a situation in which poor individuals (or their families) face very high marginal tax rates when their hours of work or their wages increase, or when they take up a job. Benefit systems that are too selective, are beset by "poverty traps", as in the UK. "Unemployment traps" - discouraging mainly low-skilled workers from taking up jobs - characterize not only selective welfare systems, but some other systems as well, in differing degree.
- 6) It is necessary to subsidize low-skilled labour, by topping up low-skilled workers' pay, or by selectively subsidizing employers, combined with decent minimum wages.
- 7) People who work part-time or in flexible jobs should be adequately integrated in and protected by the social security system.
- 8) Such an "intelligent welfare state" needs an economic environment, based upon both a competitive sector, exposed to international competition, and the development of a private service sector, which is not exposed to international competition, and in which low-skilled people find new job-opportunities. Continental Europe typically lags behind in the development of the private service sector. Wage subsidies for low-skilled people can also be instrumental in that respect.

Delors (1997) has written an excellent short paper for the Party of European Socialists on a "new model of development", in which the foregoing points - concerning the family and the distribution of

work, wage-subsidies for the low-skilled, development of the service sector, etcetera - fit very well. One finds the same core insight - that tackling unemployment and reforming the welfare state requires a new European social and *economic* model - in many social-democratic documents. The Friedrich Ebert Stiftung's Zukunftskommission proposes a "new German model" along the same lines, stressing, for instance, the need to create a market for low-skilled labour in services.

Elsewhere I have argued that the recurrence of these "fixed points" reflects the potential for a useful convergence of views on the welfare state among European social democrats, at least on the level of general diagnosis and general policy guidelines (Vandenbroucke, 1997). I do not suggest that a consensus on such guidelines would lead to close convergence of national social models within the European Union, or to close convergence of practical policy measures. Different political, institutional and cultural backgrounds explain why differences in measures and in models will persist; imposing homogeneity would certainly not be sensible. Nevertheless, indicating such a convergence of general views on employment and employment-centred welfare reform among social democrats is not a theoretical exercise. For instance, without this kind of convergence the political process set in motion by the 1997 Luxemburg Job Summit would have been more difficult. It is one of the reasons why the discussion of the National Action Plans and the elaboration of European Guidelines for Employment Policies turned out to be a substantive exercise - contrary to what sceptics might have feared (2). More fundamentally, without common vision on the future of the European social model, however diversified, European politics is doomed to stagnate and, finally, to fail (de Schoutheete, 1997).

Of course, establishing the potential for convergence of views on the welfare state entails much more than what I have said so far. A comprehensive approach of welfare reform requires positions on the future of pensions, health care, and the much-debated issue of universality versus selectivity in social security. It is possible to specify "fixed points" on these issues, similar in terms of generality to the fixed points I deduced concerning employment and employment-centred welfare reform. If formulated on a suitably foundational level, they stand a good chance of representing much of European social-democratic thought and practice today. Consider, for instance, the following statement on universalism, which I would add to my list of fixed points:

9) Neither selectivity of benefits nor universalism are social-democratic dogmas: they are not foundational values, but methods to be judged on the basis of efficiency and stability. These criteria are interconnected: stability depends upon legitimation of welfare state provisions in the eyes of the public at large; efficiency, together with other considerations, supports legitimation. In some sectors universalism can lead to visible "waste" of money, and so undermine legitimacy. But in other sectors (e.g. health) universalism can be a precondition to sustain a broad base of support for the welfare state, and to create communal experiences in society. Selectivity - in the form of an "affluence test" rather than a "poverty test" - can be a condition for efficiency. However, too much selectivity typically catches people in poverty traps and reduces efficiency. In other words, social democrats should find an appropriate, "broadly based" balance. The foundational value in this endeavour is the idea of a fair distribution of burdens and benefits, and the political challenge is to find majority support for a distribution that is accepted as fair.

Again, it has to be stressed that convergence of view on this level of thinking will not necessarily lead to convergence on practical measures. I advocated somewhat more selectivity in parts of the Belgian welfare state during the eighties, against received wisdom in some quarters of my party, because I considered them at that moment as insufficiently selective. In the UK, on the other hand, it is understandable that reformers on the centre-left stress universalism, against the prevailing British systems of means-testing. To understand each other's practical positions, we should not generalize from our parochial situations, but look for more general principles underpinning our positions. (Ferrera, 1998, explains well why arguments on selectivity mean different things in different countries.)

So, taking Sassoon's long-term view, it is plausible to present recent social-democratic history as one of convergence; taking a short-term view, one can identify points of convergence on subjects such as employment and welfare reform. However, the account of "fixed points" I have summarily sketched here leaves open some basic normative questions, and it also overlooks or conceals divisions and differences in emphasis within the European centre-left. I will first discuss a division that is, I believe,

important for the immediate future, and one possible difference in emphasis (3). Then I will return to normative questions left open by my scheme.

Divisions and differences in emphasis

Keynesians versus supply-siders?

Confronted with my fixed points, many social democrats would add that the emphasis on employment for low-skilled workers must not lead to a one-sided approach. To be successful, they would say - and I would concur with them - targeted employment policies require a sufficient overall pressure of demand for labour. Hence macroeconomic policy is important. More precisely, as the French, German and Italian governments and some others argue: Europe needs macroeconomic policy coordination, *a fortiori* in the context of EMU. They thereby appeal to some basically Keynesian insights.

This appears to be a division between the British Third Way on the one hand and much of continental social democracy on the other hand. Now, words can exaggerate differences; one might argue that the fiscal stance of the UK government over the next three years is classically counter-cyclical. Moreover, one should not be afraid of some internal division within the centre-left: that is the stuff of politics. Yet, what worries me is that some arguments presented as inspiring the Third Way seem unable to grasp the relevant discussion.

The demise of Keynesianism is essential in Giddens's construal of the *need* for a Third Way, as he explained in *Beyond Left and Right*: "Keynesianism became ineffective as a result of the twin and interconnected influences of the intensified globalization and the transformation of everyday life. (...) Keynesianism worked tolerably well in a world of *simple modernization*; but it could not survive in a world of *reflexive modernization* - a world of intensified social reflexivity. Reflexive citizens, responding to a new social universe of global uncertainties, become aware of, and may subvert, the economic incentives that are supposed to mobilize their behaviour. Keynesianism, like some forms of policy which helped structure the welfare state, presumes a citizenry with more stable lifestyle habits than are characteristic of a globalized universe of high reflexivity." (Giddens, 1994, p. 42)

Since we are not given a shred of empirical support for the supposed link between lifestyle instability and the demise of Keynesianism, this remains a rather dogmatic statement. But that is not the main point I want to make here. This way of thinking overlooks the *real* difficulties social democrats have encountered with Keynesian policies in the past, and it makes it hard to engage in an intelligent and productive dialogue with, for instance, the French and the Germans today.

I cannot go through all the arguments here, but let me put it as follows. The identification of "classical social democracy" with "effective Keynesianism" relies on hidden assumptions, which are too easily taken for granted. Once, so it is assumed, we lived in a "golden age" during which, first, the appropriate policy for social democrats confronted with unemployment was *in all circumstances* some mixture of fiscal and monetary demand expansion organized by governments, and second, Keynesianism, so conceived, was essentially unproblematic in less open economies. Neither of these assumptions is true (4). In his important work, *Crisis and Choice in European Social Democracy*, Scharpf neatly expounds various problem constellations for which fiscal or monetary demand management offers no solution: stagflation, fuelled by cost-push inflation, is one example. Incomes policies were the key additional instrument needed to tackle stagflation. So, close cooperation between governments and unions was necessary (Scharpf, 1991, pp. 25-37). Even when confronted with the usual swings of the business cycle successful economic policy depended on the voluntary cooperation of unions and employers. The policy instruments directly available to governments do not suffice to cope with all problem constellations, not even in a closed economy.

I stress this point, not because external constraints, enhanced by international economic integration, do not exist; they do. I stress it to eliminate the bizarre idea that "in the golden era" - before globalization, so to speak - social democracy could always successfully rely on the single track of fiscal and monetary demand management by governments to fight unemployment, whatever the problem constellation causing it. Returning to contemporary discussions, the real issue may be formulated as follows. Successful macroeconomic policies - successful, that is, from the point of view

of social democrats - require coordination and mutual trust between at least three actors, or sets of actors: budgetary authorities (governments), monetary authorities (central banks), and employers and trade unions who negotiate wage increases. The requirement facing the latter is, more precisely, the acceptance of some discipline concerning the growth of the average wage level in both slack and tight labour markets. The difficulty of achieving coordination and trust between these actors is exacerbated now on the European level, where we will have a multitude and layers of governments, layers of employers and trade union organisations, and one monetary authority. Now, the French, following longstanding pleas by Delors, have a project, designed to overcome this difficulty, which they summarize by the idea of "*un gouvernement économique*" - an economic government for Europe. The idea, replicated summarily in Lafontaine's writing (e.g. Lafontaine, 1998, p. 105), is that, within the Euro-zone, close economic coordination between governments should create "*un pôle économique*", i.e. a point of reference for the Central Bank, and that this should, ideally, be supplemented by some forms of Europe-wide collective bargaining. This generates a complex agenda, to which specific proposals concerning coordination between the various Councils of Ministers are added. Space forbids pursuing this in any detail, let alone to discuss the strengths and weaknesses, the opportunities and the risks involved. Here, I only want to stress that a sensible reading of this approach is that it is structural: it intends to create the institutional conditions for a sustainable mix of demand and supply policies, more precisely for the necessary flexibility in monetary management, à la Greenspan, the successful president of the American FED. Although the approach relies on Keynesian insights, there is no question of a "dash for growth", nor of "Keynesian fine tuning" - these, so we learned, are illusions. Also, demand policy is likely to be most effective when based upon monetary policy; fiscal policy will play a lesser role than the traditional conception of Keynesianism suggests, as both the French Minister of Finance, Strauss-Kahn, and Lafontaine's deputy Flassbeck recently emphasized (Strauss-Kahn, 1998b; Flassbeck, 1998). What we need, institutionally, is the creation of sufficient trust and coordination among the main actors, so that the ECB can confidently relax monetary policy when it is economically indicated. The essential difficulty in this approach is the perception of an irreversible decline in the coherence and cohesion of collective bargaining and corporatist institutions in Europe. The challenge in that respect is to create new forms of successful national corporatism, and to design a European model that can incorporate the variety of national models. Although optimism of the will should, in these matters, be counterbalanced by pessimism of the intellect, all-out pessimism on the future of collective bargaining is not warranted: the Netherlands provides a well-known example of the possibility of successful neo-corporatism.

My concern is this: here we have defining issues for the immediate and longer-term future of European social democracy, and a source of potentially disruptive and destabilizing divisions between European governments. The intellectual framework underpinning Giddens's presentation of the Third Way offers no purchase on this debate; in a sense it declares itself uninterested. It claims that the world has changed so dramatically that textbook macroeconomic analysis and steering have become *irrelevant*. I believe that this is not only wrong, but also that it hampers one's capacity to engage in key debates within European social democracy, such as the management of the Euro, the future of European collective bargaining, the future of budgetary politics, the future of the European model *tout court*. The fact that Giddens lists corporatism as one characteristic of social democracy, but defines it as "state dominates over civil society" (Giddens, 1998), reinforces the intellectual difficulty created by his implicit dismissal of textbook macroeconomics. As Crouch (1998) has pointed out, this shows little understanding of what neo-corporatist industrial relations meant in those countries where they were most practised. It precludes a useful dialogue on the role of corporatist structures in the renewal of the European model on the continent.

Problems of language and communication play some role, but should not stand in our way. Clearly, "*un gouvernement économique*" sounds *a priori* fine to many French ears, but the French will have to realize that "an economic government" is not exactly "*un slogan porteur*" for Anglo-Saxons. But, apart from problems of presentation, overcoming this division requires open and undogmatic discussion on the level of empirical theory. The basic fact, from which one should start, is that the European nations are confronted, first and foremost, with a *thorough Europeanization* of their economies rather than with their globalization (which is not to deny that globalization is an issue in its own right). Economic reality dictates European economic governance.

Nearly all continental social democrats add proposals on tax coordination to this agenda of European economic governance. The problems of taxation and the welfare state are interconnected. For instance, gradually introducing new sources of funding for social security, such as taxing the

consumption of energy, to diminish taxes on employment and to create more jobs, requires European coordination. If the extreme caution with which New Labour operates in this domain is tactical, the disagreement concerning tax coordination may turn out, in the longer term, to be not fundamental and can be surmounted. If, however, the British aversion to discuss tax coordination is ideologically entrenched, some of my optimism concerning the potential for positive convergence on welfare reform will be seriously dented. In the latter case, it will be very hard, if at all possible, to shape a common European approach to employment and welfare reform beyond what the Luxembourg and Cardiff summits have already achieved.

Social investment replacing social spending?

My construal of convergence on employment-centred welfare reform, around the fixed points 1 to 8 given earlier, may conceal important differences in emphasis. The third fixed point holds that the intelligent welfare state should not only engage in "social spending" (on benefits), but also in "social investment" (e.g. in training and education). Most social democrats would emphasize that the relation between social investment and social spending is not "either-or". The distinction highlights a pragmatic trade-off between two tracks of redistribution in society, which are both necessary, and we should avoid creating false dichotomies.

It is often suggested that spending on benefits instantiates "redistribution", while social investment is something entirely different. An intuitive and politically attractive argument supports such a dividing line. It holds that social investment makes everybody better off, while spending on social benefits makes some people better off at the cost of others; hence, the latter is "redistributive", and the former is not. Although it may be politically convenient, and often analytically correct, it is difficult to maintain that social investment never embodies redistribution. First, social investment does not come cheap, certainly not in the short run. Even in the longer term, some people may be permanently worse off, as a consequence of reallocating the resources invested in society. To put the same idea in other words, even if social investment raises economic efficiency sufficiently to generate a macroeconomic return, there is no guarantee that each individual citizen will be a net beneficiary. Secondly, some key policies are difficult to classify using this taxonomy: wage subsidies entail both an investment (in human capital, because people get work experience, thanks to the wage subsidy) and a direct form of redistribution (because some people's taxes are funding an increase in other people's net wages). [Phelps \(1997\)](#) argues that wage subsidies for the low-skilled become self-financing and make everyone better off in the longer term, and he is not the only one who deploys this argument in support of such schemes. I doubt, however, whether that argument is robust, or more precisely, whether it is robust enough to make it the decisive point in public discourse. The reality of things is that both much of social spending and much of what we call "social investment" appeals to our willingness to redistribute resources, often from well-identifiable high-skilled, high-income people, to well-identifiable, low-skilled, low-income people. And, in setting priorities, we face an inevitable trade-off between those two tracks of redistribution, more precisely, a trade-off between increasing benefits for poor people who cannot improve their situation via employment (for instance, because they are retired) and investing in jobs and skills for those who can escape poverty by means of employment.

The idea that the social investment state can *replace* much of the traditional welfare state is *unreal*, given that we live in an ageing society, with ever more people dependent on benefits and social spending because of age. This is not to deny the connections between social investment in the labour force and the management of the demographic transition. For instance, maintaining the link between benefit levels and wage levels, i.e. between the standard of living of the inactive and the active population, requires higher participation rates, a point emphasized in the Dutch debate (see references in fn. 2). Investment in training and education is instrumental in raising participation rates. However, this is an argument about the sustainability of high and desirable levels of social spending. It is not an argument pointing to a decrease in social spending.

Important changes in the world necessitate important changes in welfare states (cf. fixed points 1 and 2). But the claim that social investment will allow a significant decrease of aggregate social spending reflects a view that, if pursued in practice, can only be achieved through real retrenchment of welfare provisions and social security. It would breach a recognizably social-democratic agenda. This is not to say that we cannot improve the structure of social spending, or that all existing social spending is sacrosanct. However, my impression is that strong assertions about the "inefficiency" of social

spending, made in the British Third Way debate, wrongly take problems specific to the British welfare state as being general defects in all contemporary welfare states. Some reasons why increased social spending has not reduced poverty in Britain over the past 15 years are intrinsically linked to the structure of the *British* welfare state and of the labour market with which it interacts.

A *general* "inefficiency" of social spending, affecting all contemporary welfare states in the same way, cannot explain the British experience (cf. the overall analysis of welfare spending and inequality in Gottschalk, 1997, notably p. 673). Although welfare states are everywhere undergoing necessary reforms, such an assertion would be incorrect and conflate issues. It would not be the basis on which a meaningful dialogue with modernizing European social democrats on the future of the European model can be organized. On the other hand, continental social democrats should understand the complexity and distinctive character of the social problems New Labour has to address.

Shared normative questions

The foregoing discussion calls for careful analysis of changes in our economic and social environment. Scrutiny of the facts often reveals that the real changes are less spectacular; or less decisive, than sweeping generalizations suggest. This *caveat* not only holds for some of the views discussed in the previous section, but also for some of the "fixed points" mentioned in the first section. (The truth is often complex and unexciting. Balanced reasoning and empirical verification are, sadly, not the stuff of best-sellers.) However, locating the essential discussion about the future of social democracy in changes in the world in which social democracy operates also reflects an *a priori* judgement that may be mistaken (cf. Salvati, 1998). Maybe it is not primarily the world that needs to be reconsidered, but our social-democratic system of values. I, for one, believe that social democrats should be prepared to rethink the way they translate their foundational values - such as "equal concern for all people" - into normative standards of justice, that is, into conceptions of rights and duties, and into criteria for distributive justice (5). This goes against the grain of much of our discussion on social democracy or the Third Way. In political discourse "values" are often defined in very general terms. To say, then, that "our values are unchanged", but that the world has changed, so that we have to revise the practical implementation of our values, is politically and emotionally comfortable - we do not lift the anchor of our values - yet it does not tell the whole story. However reassuring it may sound, it is not necessarily a true reflection of what is going on in the debates on social democracy and the Third Way. Between foundational values and practical implementation lie standards of justice, that is, normative criteria indicating what is, ideally, to be achieved for a society to be just. It may well be the case that many social democrats are now in the process of reviewing, not their values, but their standards of justice, so conceived. *A priori* I do not consider this a problem. Maybe we *should* revisit and review settled ideas on justice in society. Therefore, I find Blair's insistence on the importance of the discussion of ideas and values most welcome. Although he stresses very much the unchanged character of social-democratic values, he simultaneously makes it quite clear that the discussion is "about ideas" (Blair, 1998, p. 1).

I would like to mention, briefly, some normative questions concealed by my account of the centre-left's fixed points on social policy at the end of this century. But first I should point out that the awareness that full employment can no longer be defined in the traditional "male" sense (my fixed point 1) has led, in many quarters if not everywhere, to an even more fundamental shift in objectives than the one I specified in the first fixed point. Nowadays it is not so much unemployment figures that exercise policy makers, in their longer term thinking, but labour market *participation rates*. This is quite a different thing, both in a practical and in a more fundamental sense. Characteristically, governments are less and less interested in fiddling with unemployment statistics. They also consider the growing number of people in disability or early retirement schemes to be as problematic as unemployment figures. The drive towards increased participation rates is supported with references to the value, for each citizen, of active participation in society, and/or references to the idea of inclusion. I propose to start from that idea, however vaguely defined.

If we take it that participation is the value underpinning employment policies, we can formulate one cluster of questions, concealed by my fixed points, as follows: *what* is it participation *in*, *why* is that so important, and how do we want to distribute the *benefits and burdens* of the drive towards participation - if we really mean to achieve an inclusive society, that is a society in which *all* participate?

In practice, references to inclusion and participation focus on a narrow definition of participation, that is, participation in the labour market. More precisely, for the Labour government, increasing participation is essentially increasing participation in the private sector of the labour market. (Other European governments that stress inclusion assign a significant role to public sector jobs too.) This reflects a morality of "supported self-reliance", i.e. a morality stressing both the importance of self-reliance, and the need for governments to support the individual's effort to achieve it, by means of training, education, etcetera. The idea of self-reliance has, partly at least, a moralistic (or paternalistic) flavour: paid labour is so central in this approach not only because of the monetary and non-monetary rewards for those who do it - such as self-esteem - but also, I take it, because of the beneficial effects it has on the way people structure their lives and integrate into society. A slight degree of such moralism in political discourse - "the government knows what is good for you" - does not disturb me. More importantly, one should certainly not dismiss the value, for the individual, of non-monetary rewards from labour market participation: it *is* important, and there is nothing paternalistic in recognizing *that* fact (6). Labour market surveys show that many people willingly pay a monetary "price" - having less overall net income than they would if they were to live on benefits - to obtain the esteem and self-esteem provided by self-reliance. Phelps's argument for a massive programme of employment subsidies to boost the income of people with low economic productivity explicitly refers to the idea that achieving self-esteem in a market economy can be valuable but quite costly for individuals: "The measure of cash reward for the *work* supplied by the disadvantaged to the market economy is only their *earnings*. And the *net* reward from this work is only the *excess* of these earnings over the entitlement benefits for which these workers become ineligible as a result of their wage income. Our self-esteem from being self-supporting, not dependent upon the state or kin, hinges on our sense that what we have provided ourselves and our families is largely due to our own efforts. If the net reward is actually negative and large, those low-wage workers with comparably low private wealth may feel themselves too poor to be able to afford the pecuniary sacrifice necessary to 'buy' the self-esteem of being self-supporting." (Phelps, 1997, pp. 21-22). In other words, for a society to be really inclusive, achieving self-esteem via self-reliance must be "affordable" *for all*.

If we really mean it, the inclusive society is not a cheap option. It requires not only extensive investment in education and training, massive subsidies to increase the net-income of low-productivity people as Phelps proposes, but also, as Solow (1998) emphasises, the effective supply of jobs via which people can participate in economic life. According to Solow, the crucial question is who will pay for the achievement of an inclusive society. As for the American welfare debate, Solow concludes: "(W)e have been kidding ourselves. A reasonable end to welfare as we know it - something more than just benign or malign neglect - will be much more costly, in budgetary resources and also in the strain on institutions, than any of the sponsors of welfare reform have been willing to admit. And the reasons are based on normal economics." (Solow, 1998, p. 27). Solow's point can be put in yet another way, with reference to some empirical facts. High employment rates are a necessary but not a sufficient condition for fair equality of opportunity in society or social inclusion, as comparative figures on poverty in the working age population show (if we take that as one good yardstick for social exclusion). The relative poverty rate for the working age population in the US is almost twice as high as in Germany or France, and almost four times as high as in Belgium, although a far greater proportion of the working age population has at least one job in the US. Likewise, poverty at working age appears to be more widespread in Australia, Canada and the UK, all of which are countries with much better employment records than most of the Continental European countries (Marx and Verbist, 1997, p. 5; Fig. 2 and Table 1). Note that this in no way diminishes the individual and collective value of citizens' participation in the labour market. These figures question whether high employment rates are a sufficient condition to achieve, for the population of working age, the normative value we attach to the idea of participation.

Moreover, if participation is to be a central and overarching value for social democrats, it cannot be limited to participation in the labour market. First, active participation in the community can be pursued by activities outside the labour market - think of the role of parents in local schools. In general, care should be considered as a valuable form of participation in society. A comprehensive view of active participation implies that more be done to allow people to combine work and family life, not only by providing professional childcare, but also by means of flexible systems for short and long-term parental sabbaticals, available to the whole labour force and not only to a lucky minority. Pursuing a comprehensive view of participation suggests even more ambitious propositions. The Dutch social democrats proposed the introduction of an overall "participation law" in their social security system, covering various activities, going from training, job search, to specified socially useful

work outside the market (PvdA, 1997, pp. 29-30); it seems that the Dutch coalition government now pursues this idea by promising "framework legislation on care and leave". Atkinson's participation income is a yet more radical proposal, set in the context of a criticism of means-testing (Atkinson, 1995, pp. 301-303; see Oppenheim, 1998, for a short account of advantages and drawbacks). Secondly, if participation in society or inclusion is to have any meaning for the increasing number of elderly, or for those who cannot contribute productively to society, it must include a notion of participation in consumption (cf. Atkinson, 1998, p. 24 and p. 27), hence, decent income levels. This implies the "deeply unfashionable notion that we might once again use the tax system as an instrument of redistribution towards the excluded, and as a mechanism for social inclusion and an expression of citizenship." (Lister, 1997, p. 105).

I hope these summary remarks suffice to show that the goals of participation and inclusion inevitably put both the ideals and the practical politics of redistribution high on the agenda. They do so not necessarily because we start from egalitarian convictions (Phelps explicitly says that he is not an egalitarian), but because huge burdens and benefits are to be distributed in the process of achieving participation and inclusion. Social democracy has to define itself both by its ideals of distributive justice and by its pragmatic capacity to build coalitions between "winners" and "losers", as Melkert, the parliamentary leader of the Dutch social-democrats, writes in an interesting contribution on the future of social democracy and the Third Way (Melkert, 1998). Social democracy is a broad church, but it cannot flourish without a recognizable and unifying identity. Standards of distributive justice - motivated by equal concern for all - and democracy are key elements in that respect.

However different the national institutional backgrounds, these are questions shared by all parties of the centre-left in Europe. Related to these issues, a further normative query confronts the parties of the centre-left: it concerns our conceptions of citizenship and responsibility. I cannot discuss these complex questions exhaustively here. By way of a teaser I would like to confront two different scholarly interpretations of the same practical programme, the New Deal, and briefly examine what we can learn from those interpretations.

Crouch (1998) thinks that the New Deal offers an interesting blend of neo-liberalism and social democracy. The policy can be seen as neo-liberal because of its "stick" components of withdrawing welfare benefit and its toughening of incentives to enter the labour force. It is however also strongly social-democratic in its use of public money to assist people's labour market-access through provision of childcare support, education and training, and subsidized work. Crouch uses this as one example in his argument that there is no explanatory need - from the sociologist's point of view - for a concept of a Third Way to understand today's British politics in the field of industrial relations. Crouch's approach can be contrasted with Plant, who argues that the New Deal instantiates "not only (...) quite a different view from social democracy, at least in its mid-century UK form, it also implies a role for the state, for bureaucracy and for the purposes of taxation which could not be justified by neo-liberal ideas." New Labour's welfare reform is a "genuine alternative" to both the first (neo-liberal) way and to the second (social-democratic) way. What is at play, according to Plant, is something one might call "supply side citizenship": "(I)n a global market there cannot be a rich and growing form of end status citizenship; that is to say, a bundle of goods which are due to the citizen as a right outside the market. Rather, supply side citizenship stresses that citizenship is an *achievement*, not a *status*, it is available through participating in the labour market and reaping the rewards that accrue from that, and investment in skills is part of equal opportunity as a right of citizenship in this new economic context." Still, this approach has more in common with social democracy than with neo-liberalism, in Plant's view. But it differs from social democracy in yet another respect: "(T)he question of whether the position of the poorest groups equipped with marketable skills will improve relative to the rich will be, so far as I can see, a matter for the market to determine. Either these skills will allow the poorest groups to improve their position in the market, or they will not. The social democrat, however, wants to see such a policy pursued as a direct aim of government, not as something to be left to the market." (Plant, 1998, pp. 9-10). With reference to Labour's *actual* policies, Plant slightly overplays the last argument, since the transition from the Family Credit to the Working Families Tax Credit will change the results of the market reward structure more or less significantly for nearly one fifth of British families. Moreover, the increased expenditure entailed by the enhanced generosity of the new system for low-income families appears, on closer scrutiny, to be pure "deadweight" from an economic point of view: the officially planned extra spending concerns expenditure that will not act as an incentive to change behaviour, but will go to people who are expected to continue to do the same jobs with the same earnings as they would have done without the change (Meadows, 1998, p. 76). In

other words, the British government is using the language of incentives to sell a redistributive programme. However, I believe Plant has a point, in that a cluster of ideas is at play, the constitutive elements of which cannot simply be read as classical social democracy and neo-liberalism. Behind the New Deal there is, first and explicitly, the general notion of "reciprocity", or, "no rights without responsibilities"; secondly, there is, more implicitly, the emphasis on participation in market exchange and market reward as the instrument of reciprocity. In a sense both Crouch and Plant are right. If market exchange is the sole instrument of reciprocity in human interaction, then the compulsive aspects of the New Deal can be seen as neo-liberalism *tout court*, as Crouch says. Compulsion in active labour market policies introduces the discipline of markets, and so reinforces the "commodification" of social relations on the labour markets, to use Esping-Andersen's terminology. However, if we disentangle the underlying ideas as Plant presents them, then it can be argued that we have here, first, the introduction of a new, responsibility-sensitive conception of social democracy, and, secondly, the narrowing down of the idea of personal responsibility to reaping the rewards generated by market exchange. I believe the first idea is promising, while the second, if pursued without correction, is troublesome.

We have good reasons to develop a more responsibility-sensitive conception of social democracy. Today even more than in the past, social democracy needs a moral programme, if it is not to become hostage to the natural tendency to conservatism of an "affluent majority" and degenerate to the defence of sectional interests. I believe a coherent moral programme has to be built around an ethic of responsibility (Vandenbroucke, 1990). Although personal responsibility regularly surfaced as a theme in social-democratic discourse during this century and sometimes played an important role, it would be disingenuous to claim, now, that it was always prominent in our thinking. Blair is right when he says: "In recent decades, responsibility and duty were the preserve of the Right. (...) it was a mistake for them ever to become so, for they were powerful forces in the growth of the labour movement in Britain and beyond." (Blair, 1998, p. 4). I think four features distinguish a responsibility-sensitive conception of social democracy from a market-exchange conception of responsibility. First, in a responsibility-sensitive conception of social democracy the government not only levels the playing field and equips and helps people to confront the market, it is also prepared to change the result of the market reward structure in a more egalitarian direction by means of taxes and subsidies, when differential market reward is *not* a true reflection of personal responsibility and effort. Second, in a responsibility-sensitive conception of social democracy the government accepts as part of its responsibility to ensure that sufficient opportunities for participation in the labour market do emerge. Third, a responsibility-sensitive social-democratic government takes it that citizens display social responsibility in various forms of participation, not only in the labour market, but also in caring and other social activities that the market does not remunerate. Fourth, "the easy rhetoric about the moral responsibilities of the poor and the powerless should be more than matched by a more difficult rhetoric about the social obligations of the rich and powerful" (Wright, 1996, p. 147).

Earlier I argued that the goals of participation and inclusion inevitably put both the ideals and the politics of distribution high on the agenda. Distributive justice has to be based on the foundational value of "equal concern for all". What standards of justice can now best be thought to realize the value of "equal concern"? Some abstract problems discussed in the framework of egalitarian philosophy over the last 20 years are highly relevant in this respect, since they provide the possibility to develop a true social-democratic, responsibility-sensitive conception of equality. The reconciliation of appropriate conceptions of equality with appropriate conceptions of personal responsibility has been a focal point of many exchanges in the philosophical domain developed by Rawls, Sen, Dworkin, Cohen, Arneson, Roemer, Kolm, Barry... Crucial arguments relate to the difference between "having a talent" and "deserving" the compensation for using that talent in the market. At first sight, it might appear as if abstract discussions about "talents" are far removed from the real world. Many people would object to such theoretical preoccupations that individual talents are not overwhelmingly important in determining income distribution. And from the traditional point of view of the left, with its emphasis on the distribution of material means of production, such a focus on human capital is a radical change of perspective. I believe, however, that these reflections on the meaning and normative consequences of differences in human capital are crucially important. They can be connected with what many modern social democrats consider a key social issue in actual societies (e.g. Strauss-Kahn, 1998a, pp. 68ff.).

Le Grand captures a core idea of modern egalitarian philosophy as follows: "(O)ur judgements concerning the degree of inequity inherent in a given distribution depend on the extent to which we

see that distribution as the outcome of individual choice. If one individual receives less than another owing to her own choice, then the disparity is not considered inequitable; if it arises for reasons beyond her control, then it is inequitable." (Le Grand, 1991, p. 87). Equality, so conceived, is *not* uniformity, for instance uniformity of income, independent of people's personal choices and personal effort (for the simple reason that this would constitute *inequality* in social advantage). It is however more demanding than "equality of opportunity" as the latter is conventionally used: "Individuals' choice sets are determined not only by the social and individual barriers they face but by their initial resources or endowments, which include their natural abilities and the resources that they acquire through inheritance, gifts, family background, education prior to the age of majority, etc. Equalization of choice sets thus may require judicious manipulation of economic and other barriers in order to advantage the less well endowed. Or it may require compensating those with little natural ability by other resources, such as education, so as to bring their range of choices as close as possible to those naturally endowed." (Le Grand, 1991, pp. 91-92). One may add to the last example the possibility that people who perform poorly on the labour market, independent of their will, have to be compensated financially via redistributive taxation, wage subsidies or mechanisms like the Working Families Tax Credit. Personal responsibility, based upon choice, is thus a key concept in modern egalitarian philosophy. Conceptions of responsibility determine what we consider to be a "fair distribution of benefits and burdens", and thus yield a foundational value for thinking about the welfare state (rather than, for instance, an appeal to universality *or* to selectivity *per se*), as I argued earlier.

Personal skills are the combined result of individual talents and effort to develop those talents. Hence, the market value of your skills is the combined result of luck and choice: (i) *luck*, first with regard to your original talents, as determined by the genetic endowments with which you are born and your early education, during which you did not make choices yourself; and secondly, luck with regard to the market for your skills, i.e. the interaction between the demand for your skills, which is influenced by other people's preferences, and the competing supply of the same skills by other workers; (ii) *personal choice*, regarding the kind of skills you choose to develop on the basis of your talents, and the effort you put into it. This is the domain characteristic of modern egalitarian philosophy. That these issues are intrinsically difficult does not mean that they can be assumed away. Political discussions about the relevance of personal skills and about the extent to which individuals are responsible for the skills they develop and for the position they consequently have on the labour market, presuppose the fundamental ethical discussion about talent, choice and just desert lying at the heart of modern egalitarian justice (cf. [Cohen, 1989](#); White, 1997; White, 1998., pp. 25-26).

Poverty of theory?

Social-democratic action needs a moral programme nourished by empirical theory (Wright, 1996, p. 51). Having painted the long-term picture of social-democratic convergence, Donald Sassoon concludes on some pessimistic notes, one of which he labels "the poverty of theory": "A further negative aspect of convergence is the practical end of an intellectual framework able to guide or inspire the parties of the Left. The European Left can no longer rely on theoretical instruments - such as Marxism or Keynesianism - to find a way out of the present impasse. Here the fault lies not with the politicians but with the intelligentsia." (Sassoon, 1998, p. 96). Obviously, Sassoon does not argue for a return to Marxism or Keynesianism. Still, I doubt whether references to Marxism and Keynesianism constitute the best way to illustrate the contemporary intellectual challenge. True, once the idea prevailed that social-democratic action could and should rely on a self-contained body of scientific theory, clearly separated from "bourgeois" thinking. And it may be the case that after Marxism, some social democrats have embraced Keynesianism as if it were the new social-democratic *passe-partout*, to the effect that any criticism or nuance vis-à-vis traditional Keynesianism came to be seen as "neo-liberal". If so, that was simply a mistake. Does the demise of the belief in a separate, self-contained domain of socialist theory mean that, today, we lack intellectual resources? Not at all. The intellectual resources required to develop both the moral programme and the empirical theory, which social democrats need, are available in contemporary political philosophy and in social, economic and political theory. They are not available as a neat, unified programme. Connecting with them requires grasping complex and conflicting arguments and empirical evidence. Building bridges between practice and theory is a painstaking exercise. The endeavour is not well served by sweeping generalizations which all too often prevail in our discussions, by the "glib rhetoric that appeals to those who want to sound sophisticated without engaging in hard thinking" (Krugman, 1996, p. ix). The intellectual challenge, nowadays, is to confront rhetoric - on a variety of subjects such as "globalization", "the end of Keynesianism", "the end of welfare as we know it", or "the coming crisis of

capitalism" - with clear thinking and hard facts. The challenge is also to revisit, critically and constructively, our own core ideas. The intellectual resources required to do that are abundantly available. Social democrats are not in want of intellectual resources, even less are they in want of political power today. Two conditions might hamper our common action: lack of open-minded communication across national borders, and reluctance to engage in a thorough debate on ideas. We have never had fewer excuses for failure, on any of these accounts.

Footnotes

(1) Revised version of a paper presented at the conference "*Labour in Government: the Third Way and the Future of Social Democracy*", Minda de Gunzburg Center for European Studies, Harvard University, 13-15 November 1998; to be published in the conference book (eds. S. White and R. Skidelsky), and, in abridged form in T. Wright MP and A. Gamble (eds.), "*The New Social Democracy*", The Political Quarterly Fifth Issue, 1999. I am grateful to Peter Robinson, Jos de Beus, Alan Chipp, Jerry Cohen, Colin Crouch, David Miliband, Donald Sassoon, Anthony Atkinson, Bernard Tuytens and Wolfgang Merkel for generous comments and criticism (some of which they will, no doubt, maintain).

(2) Cf. the assessment of the French Employment Minister, Martine Aubry (1998, pp. 48-49); and the interesting and remarkably non-complacent account by the European Commission (1998).

(3) Obviously, this analysis should be pursued in more detail. I omit, for instance, different views with regard to labour market regulation, and the question whether these simply reflect different realities on national labour markets or diverging ideologies.

(4) This may sound like a rather bold statement. I elaborate upon this (and upon Giddens's account) in Vandenberghe (1998).

(5) Obviously, there is more in justice and in social democracy than "rights and duties and criteria for distributive justice". Since I focus on social policy here, I do not discuss other matters that should engage social democrats, such as standards of democracy, or ecological durability.

(6) Note, though, that one can construe the argument for taking labour market participation as the central policy objective quite differently. As already indicated, a typical argument in Dutch public discourse, as I read it, holds that increasing labour market participation is crucial in an ageing society, if we want to be able to maintain a certain parity between the benefit levels for the inactive and the average wage of the active. The latter is a much more down-to-earth argument for increased labour market participation, focussing on the economic viability of a generous welfare state. (See Wetenschappelijke Raad voor het Regeringsbeleid, 1997, and van der Veen, 1998 for a critical account; but see also WRR, 1996 for a combination of economic and other arguments supporting the "*participatieparadigma*".)

(7) For a formal examination of the nexus "responsibility, equality, incentives" see Vandenberghe (1999).

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