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## Does the Third Way Work? The Left and Labour Market Policy Reform in Britain, France, and Germany

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An ambiguity underpins much of the debate about the Third Way and welfare state reform in Europe. It stems from the very different manners in which the term itself is employed and the multiplication of various 'dependent variables' for the Third Way (cf. Bonoli and Powell 2002: 60). The Third Way referred originally to the self-conscious 'rebranding' of the centre-left, as advocated by Tony Blair and some of his close advisers in Britain (Blair 1998; 2003; Giddens 1998). However, in more scholarly debates about welfare states and their reform, the term is also increasingly employed as shorthand for the policy mix perceived to be best suited to reconciling economic performance and social justice in a transformed international economy (Green-Pedersen, et al. 2001; Rhodes 2001; Vandenbroucke 2001). The perhaps unintended consequence of this double usage is the tendency to conflate a particular political *strategy* or *discourse* with the emergence of a specific set of public *policies*, leading to the rarely tested but widespread assumption that the former begets the latter.

The international 'evangelism' (Driver and Martell 2002) of Blair suggests that he, at least, is quite convinced that encouraging the centre-left elsewhere in Europe to be more rhetorically 'centre' and less 'Left' is a prerequisite for the generalization of economically and socially virtuous structural reform. This chapter will subject this claim to closer scrutiny on the crucial empirical terrain of reforms at the interface of the welfare state and the labour market, and in particular around the theme of 'activating' welfare states. The point of departure is the welfare-to-work policy of New Labour, which Blair presents as one of the greatest achievements of Third Way politics (Blair 2003). But how crucial has the centrist discourse of New Labour really been to the promotion of the welfare-to-work agenda in Britain? More importantly, would centre-left parties elsewhere in Europe

have progressed further with similar reforms if they had reinvented and repositioned themselves as comprehensively as New Labour? In short, does the Third Way really 'work' as a conduit for a centre-left welfare state reform agenda articulated around work?

The cases of France and Germany offer interesting parallels and contrasts with that of Britain. In all three countries, Left-led governments came to power in the late 1990s, governing simultaneously until the defeat of the French Socialists in the spring 2002 parliamentary elections. In opposition, all three centre-lefts had put a more active response to unemployment at or near the centre of their eventually successful electoral programmes. Their broader discourse while in government differed more significantly, however, with the German Social Democratic Party (SPD) under Schröder vacillating somewhere between the often blunt traditionalism of the French Socialist Party (PS) under Jospin and the strident centrism of New Labour under Blair. Some years down the line, the three governments' records on social welfare and labour market reform are also, as we will discuss, rather different. In the field of activation, the succession of 'New Deal' after 'New Deal' under the first Blair administration contrasts with the near two-year-long wrangle over a seemingly modest activation measure in France during the 'plural left's' tenure. Meanwhile, the SPD in Germany has long appeared to be at best fumbling towards a more coherent activation policy with neither great conviction nor much success. Finally, Britain has the lowest open unemployment for a generation, while French and German rates continue to hover around the 10 per cent mark. The details of these thumbnail sketches of the three cases could probably be arranged to support a causal link between a centrist political discourse, successful labour market and welfare reform, and even the contemporary electoral viability of the Left.

This chapter suggests, however, that the apparent correlation is spurious. Looking more closely at reform dynamics in the three cases principally serves, on the contrary, to demonstrate the limits of the Third Way as a reformist discourse in labour market policy. It is necessary to better appreciate the mediating role played by differing national contexts for the viability of any discursive strategy. Germany and France are usually regrouped within the 'Continental' welfare model (Scharpf and Schmidt 2000; Ferrera et al. 2000). Their 'institutional', middle-class welfare states should be, in principle, more solidly entrenched than Britain's. Equally, the political economies of the two countries are very different from the liberal market economy model of Britain (Hall 2002). Arguably of greatest importance, however—albeit partially correlated with the above variables—are the models of social governance (cf. Ebbinghaus, 2002) that characterize social and labour market policy in the two countries. In France, the

otherwise powerful state has historically been reticent to intervene in many domains of social policy, where it has conventionally delegated competencies to social actors (Ashford 1991; Palier 2001). Germany, the original 'semi-sovereign state' (Katzenstein 1987), has paradoxically a little more leverage over social policy, but continues to be characterized by a multi-actor social policy-making framework that has been called 'welfare corporatism' (Streeck 2003).

Patterns of policy-making are in both cases very different from Britain, where social reforms 'are fought out on an ideological front with party leaders manipulating the ideological and moral issues associated with benefit provision' (Daly and Yeats 2003: 95). The rhetorical leverage offered by a Third Way discourse, it is suggested here, is probably limited to those governance contexts that resemble Britain's. In France and Germany, in any event, the Third Way has been at best a sideshow and at worst a hindrance in the more intricate process of crafting reforms in complex governance systems. This is not meant to imply that French and German social democracies have not undergone significant changes in their general position towards labour markets and social policy over time. The modern German SPD, for example, is certainly more market-oriented and more guided by the notion of equality of opportunity (rather than outcome) than it was a few decades ago. However, this process of 'Christian democratization' of social democracy (Seeleib-Kaiser 2002) can be traced back to the 1970s, and needs to be distinguished from the more recent notion of Third Way policy (and politics). The relationship between the latter and more general modernizing trajectories of Lefts elsewhere in Europe is an issue to which we will return in the conclusion.

The chapter up to that point is organized in four sections. Section 1 discusses the actual welfare-to-work reforms of New Labour in Britain, characterizing them as one variant of a broader supply-side agenda for the Left emerging in contemporary Europe. Section 2 argues that New Labour developed its Third Way discourse principally to 'sell' these (and similar) reforms to recalcitrant or sceptical sections of the British public. A causal link, then, can in the British case be made between the Third Way discourse and pragmatic supply-side reforms. Sections 3 and 4 then extend this line of enquiry to the French and German cases respectively, sequentially examining the policies enacted and the political debates that accompanied them in each state. With respect to France, it is shown how the societal interests institutionalized in the governance of social protection tend to act as a bulwark against political intervention of *any* kind in existing arrangements, however it may be justified. Such depoliticization effects at the heart of the social welfare system are somewhat less present in the German case. Here, though, other institutional factors severely limit the

potential for the centre-left to either develop a single structuring discourse or to fuse historically separate policy domains, as much of the current activation agenda supposes. To the extent that efforts have advanced in this latter respect, ad hoc exploitation of contingencies and crises has proved more effective than a Third Way discourse.

### **1. Policies: New Labour's 'Welfare to Work' and the Emergent Supply-Side Agenda for the European Left**

In a context of an increasingly integrated economic and financial system and the nearly complete transition to service-based economies, the demand-management policies traditionally employed by many centre-left parties in Europe are widely recognized as ineffective. This realization has seen the European Left begin to converge, albeit haltingly, on an alternative strategy, centred on the supply side of the economy. Space considerations prevent the present chapter from expanding on its details or national variants, which have in any event been documented extensively elsewhere (for example, Esping-Andersen and Regini 2000; Green-Pedersen et al. 2001; Nickell and van Ours 2000; Vandenbroucke 2001; Merkel 2000). The important point is that this agenda accepts increasing labour market flexibility in the interests of employment-rich growth, but seeks—in contrast to neo-liberalism—to preserve an active role for political intervention to correct some of the worst inequities and failures of more deregulated labour markets. This policy agenda has been referred to as 'compensated recommodification' (Pierson 2001) or 'flexibility plus' (Blair 2003).

The Britain inherited by Tony Blair's first administration in 1997 had, after eighteen years of Conservative rule, already travelled much farther down the road of labour market deregulation than any of its European neighbours. It is in part as a result of this legacy that the British model remains more heavily biased in favour of flexibility than most other European states. While New Labour has not attempted to reverse most Thatcherite labour market reforms, many of its best-known policies can be read as an attempt to rebalance flexibility with a bit of 'plus'. A national minimum wage, for example, was introduced, albeit set at a comparatively moderate level and with a lower rate for the young. Labour costs and wages at the bottom end of the labour market have been kept low, but are now subsidized more generously than before, mainly through a new system of tax credits targeted at different groups in low-paying employment. That the number of low-wage families in receipt of tax credits had

increased to over 1.2 million by November 2001, a rise of some 67 per cent since 1997 (Brewer et al. 2002: 23), reflects the vastly increased emphasis of the government on 'making work pay' in this manner.

Alongside this, the New Labour governments have progressively developed their various New Deals. These seek to tackle unemployment and labour market exclusion with a mixture of training measures, socially useful work opportunities, and yet more targeted subsidies to private employers. At first reserved for the young unemployed, the New Deals have since been expanded, on differing terms, to other groups of unemployed and, more recently still, to other economically inactive groups such as partners of the unemployed, the disabled, and single parents (for details, see Walker and Wiseman 2003). The financial commitment to these measures is certainly dwarfed by the sums devoted to tax credits: in 2001/2, for example, the government planned to spend £900 million on the former compared with more than £5 billion on the latter (Brewer et al. 2002: 23). UK expenditure on active labour market policy remains, moreover, resolutely low in comparison with most other OECD countries (OECD 2002). The New Deals can nonetheless be related to wider calls for the development of 'active' strategies of 'social investment' which should be, in a context of limited resources, privileged if necessary over the 'passive' measures of income maintenance that have long formed the bulk of social expenditure in Europe. Furthermore, the expansion of the New Deals to groups such as the disabled may suggest the beginning of more serious attempts to tackle the problem of non-employment (see also HM Treasury and DWP 2001), which has been on an upward trend since the 1980s, even in periods of falling unemployment.

Another challenge for the European Left has been to manage the collision of this increasingly flexible—if partially decommodified—labour market with the social security and welfare systems that they did so much to build in the post-war era. As the relative rewards and security offered by work have declined, so the incentive problems potentially posed by the availability of income maintenance have been thrown into sharper relief. In Britain, these problems have been compounded by the massive reliance on means-tested forms of income support for those out of work, which the New Labour governments have done little to reverse directly. Rather, they have preferred to seek to enforce market discipline for recipients of social security, making individual benefit receipt far more conditional than before on active job-search in the normal labour market or offers of special assistance under programmes such as the New Deals. As in other countries, the welfare-to-work agenda of the New Labour governments has involved an increasing number of offers to the unemployed and inactive, both in the formal labour market and (far more modestly) in training

or sheltered employment. These, however, are now 'offers they can't refuse' (cf. Lødemel and Trickey 2001).

The so-called activation agenda of the European Left can be characterized as a functional and distributive restructuring of existing social commitments to make these accord with the social risks of the flexible labour market. The functional dimension refers to the attempts to recycle 'passive' expenditures into 'active' social investment measures, often by building employment promotion mechanisms into existing unemployment benefit schemes. The distributive dimension concerns the expressed desire to concentrate a greater share of resources on previously neglected groups, those for whom participation in the flexible labour market carries greatest risks and who are at greatest risk of 'social exclusion'. These two dimensions come together theoretically in what Powell (2001) has characterized as a shift from 'patterned to process-based distributions', in which there is a shift of attention from 'what you are' to 'what you do'. In Britain, they have come together administratively in the development of 'one stop shops' ('ONE', the single work-focused interview), in which all benefit recipients are in principle assessed, counselled, and treated individually according to capacities, situation, and behaviour rather than in terms of their benefit status or other broad categorical traits. Similar trends towards dedifferentiation (for example, the merging of social assistance and unemployment insurance administration) and reindividualization of social security delivery have been seen elsewhere in Europe, for example in the Netherlands (Clasen et al. 2001).

In sum, then, New Labour's welfare-to-work strategy can be seen as a variant of the labour market reform agenda that has been developed more widely, both in other nations' policies and in policy-oriented research. There is certainly some British specificity: a particularly strong emphasis on early job entry, low benefits, and an unusually modest commitment to skill formation. But the range of policy instruments—combinations of social benefits, work subsidies, and labour market programmes, delivered through an integrated administrative structure—are conventional features of the programmes of all those who advocate a pragmatic, supply-side approach to improving social justice under radically changed economic conditions. It arguably owes its notoriety less to its inherent originality than to the aggressive international promotion of the political discourse with which it was 'marketed' domestically: the Third Way.

## **2. Politics: New Labour's Third Way as Domestic Political Strategy**

Always one of the most conventionally Keynesian centre-left parties in Europe, the Labour Party began to update its social and economic

programme somewhat later than many of its European homologues. Although Blair's predecessors as Labour leader had successfully achieved a good part of this painful process, it was not until the advent of New Labour that a successful way of promoting it electorally was found. For Thatcherism had also bequeathed a peculiar political context. On the one hand, 'middle England' had become increasingly tax-resistant, and particularly resistant to providing resources to the unemployed and other groups repeatedly characterized as 'undeserving poor'. On the other hand, repeated attacks on the welfare state over the previous eighteen years had if anything galvanized the progressive electorate and their representatives in the Parliamentary Labour Party in defence of social rights. The explicit centrism of New Labour's Third Way should be seen as an attempt to woo the ones without completely alienating the others.

As developed by the Blairite sociologist Anthony Giddens, the Third Way contained clear messages to reassure conservative parts of the electorate who might be concerned even about the limited amount of redistribution towards the unemployed that would be possible within Tory spending limits (albeit supplemented by the one-off windfall tax). Proving that they would be tough on welfare recipients was a ploy New Labour borrowed from Clinton's Democrats (King and Wickham-Jones 1999). To this end, 'no rights without responsibilities' was pencilled in as the first 'rule of thumb' of the Third Way (Giddens 1998: 64). Transposed to practical policies, it meant that 'unemployment benefits, for example, should carry the obligation to look actively for work, and it is up to governments to ensure that welfare systems do not discourage active search' (Giddens 1998: 65). Similarly, Giddens' concept of 'positive welfare' supposed that 'benefit systems should be reformed where they induce moral hazard, and a more active risk-taking attitude encouraged, wherever possible through incentives, but where necessary through legal obligations' (Giddens 1998: 122). In short, the Third Way seemed deliberately to draw attention to, and stress in policy, the inevitable collision of parts of the flexible labour market with the welfare system in an attempt to claim some credit from conservative voters for some functional and distributive restructuring of social protection.

This inevitably risked antagonizing a progressive public opinion that, data suggest, is among the most supportive of unconditional social rights in Europe (Olm et al. 2000: 34–5). In part, New Labour strategists could to a certain extent rely on voters having nowhere else to take their votes in the bipolar British Party system. But to head off the residual potential for voters migration to the Liberal Democrats, the Third Way in any event developed other themes that allowed Blair to claim to 'reunite' liberalism and social democracy (Blair 1998: 1). Giddens's second rule of thumb—'no authority without democracy'—saw the New Labour project itself as

the champion of some radical-sounding and perennially popular political motifs, such as decentralization, devolution, and 'the fostering of an active civil society' (Giddens 1998: 72, 78–9). These reinforce the Third Way's 'claim to stand for political emancipation and a more meaningful form of democracy in terms of involving citizens in the political process' (Schmidtke 2002: 13). Giddens suggested that these general ideas, no less than 'balancing rights and responsibilities', also informed the Third Way agenda of 'positive welfare': 'we should recognise that the reconstruction of welfare provision has to be integrated with programmes for the active development of civil society' (Giddens 1998: 117–18).

In a number of respects, the Third Way has been a relatively useful rhetorical device for New Labour in pursuing its labour market and welfare reform agenda. New Labour's reiteration of the rights and responsibilities discourse seems, on the evidence of social attitudes data, to be reconciling progressive public opinion with more restrictive administrative treatment of the unemployed (Hills 2001), although this effect has probably been strongly mediated by the economic conditions of recent years (Clasen 2000). It may also, simultaneously, have played a role in persuading more conservative voters of the acceptability of the moderately redistributive policies New Labour has implemented since 1997. On the other hand, it is far from clear that this latter effect could ever stretch to legitimizing the more significant transfer of resources to the unemployed and inactive that would be the condition for a more skill-based labour market policy.

Nor, it should be noted, has the Third Way really been asked to help in promoting a genuinely radical institutional reform agenda in Britain. Most aspects of the positive welfare agenda related to Giddens's second 'rule of thumb' have been quietly ignored, at least as they could apply to the domain of labour market and welfare policy. There has been no decentralization of social security; indeed, it can be argued that centralization has increased in this policy area under New Labour (Daly and Yeats 2003: 95). Nor has there been any serious attempt to use welfare provision or labour market policy to 'develop civil society'.<sup>1</sup> This is not least, no doubt, because such efforts would interfere with the pursuit and implementation of the government's more substantive policy aims. A job-entry centred, administratively integrated welfare-to-work policy works largely with the grain of the existing centralized institutional set-up of social protection, and has

<sup>1</sup> The story in other social policy sectors is perhaps more complex. In health care, for example, the battle between those interested in promoting self-management in hospitals and those interested in performance and cost-effectiveness is still being waged within New Labour. In Britain, these conflicts serve to highlight some of the contradictions of the Third Way that might otherwise, in the absence of a comparative perspective, remain submerged.

benefited from there being ‘few alliances, social pacts and social partners to stand in the way’ of government projects (Bonoli and Powell 2002: 64). The very absence of collective social actors from the social welfare arena explains, furthermore, why the political debate over these issues tends in Britain to be reduced to a ‘partisan-adversarial’ conflict in which context, ironically, a well-deployed centrist discourse can appear (fleeting) radical and create some (temporary) margins for manoeuvre.

Giddens states in the introduction to his 1998 essay that he conceptualizes the Third Way as an attempt to put ‘theoretical flesh’ on the bones of already existing centre-left policy programmes, to ‘endorse what they are doing’, and to ‘provide politics with a greater sense of purpose’ (Giddens 1998: 2). To criticize the Third Way as an *ex post* legitimization strategy thus seems rather to miss the point. A more telling question is whether it is a *useful* and *coherent* legitimization strategy for welfare and labour market reform. The British experience might suggest that its utility—convincing public opinion of the probity of New Labour’s policies—was real, but only because its coherence was never, in the highly centralized British policy context, rigorously tested. The implicit counterfactual on which this argument rests suggests a need to consider whether the Third Way was or could have been an ‘endorsement’ of governments endeavouring to craft similar reforms in quite different contexts.

### 3. The Left, Labour Market Policies, and Politics in France

#### *Policies*

The ‘plural left’ coalition, headed by Jospin’s PS, was returned by the French electorate in May 1997, a month after New Labour’s accession to power. Comparisons between the two parties and their policies were thus inevitable, and tended to oppose Blair ‘the modernizer’ to Jospin ‘the traditionalist’. It has been widely argued that the PS has a quite different vision of ‘modernization’ from New Labour (for example, Clift 2001). When in office, Jospin himself said so (Jospin 1999), and proudly pointed to ‘the most left-wing policies of any western democracy’ (Jospin 2001).

Some of the labour market policies implemented by the coalition in government (1997–2002) do support this. The so-called law on social modernization, which *inter alia* greatly increased the cost and difficulty of redundancies in larger firms and placed stricter limits on the use of ‘precarious’ employment contracts, is perhaps the best example of a policy diametrically opposed to the strictures of ‘flexibility plus’. Better known still are the laws on the reduction of working time (*les 35 heures*)

and a programme for the creation of 350,000 jobs for young people in the public and para-public sectors (*les emplois jeunes*). Although each of these policies was conceived as a response to unemployment, each was in many respects out of step with the broader centre-left supply-side agenda, the former because it greatly increased the burdens on business and the latter because it expanded the scope of the public sector.

The '35-hours' and the *emplois jeunes* programme, however, did have features that at least nodded to the supply-side agenda pursued elsewhere. The former, for example, was premised upon a significant generalization of the subsidization of employers' social contributions which had been developed by earlier French governments, of both Left and Right, from the late 1980s. It was intended, furthermore, that a transfer of contributions from the unemployment insurance scheme finance these subsidies, thereby putting expenditure otherwise earmarked for 'passive' use (unemployment benefits) to a more 'active' purpose (effective reduction of the marginal cost of labour). As for the *emplois jeunes*, they generalized fixed-term (five-year) contracts in the public sector, and were widely suspected of being a way of reducing the number of tenured *fonctionnaires*. For the more irascible critics, they were even seen as 'a weapon of war against the status of civil servants' (Collin and Cotta 2001: 24).

Furthermore, the Jospin government's policies contributed to what can be seen as a French variant of British-style activation (Clasen and Clegg 2003). Although the *emplois jeunes* were not compulsory for unemployed young people, this must be seen in the context of the near-absence of any formal unemployment *or* social assistance for the under-25s in France (cf. Enjolras et al. 2001). The fact that they were implicitly intended as an alternative, and not a complement, to benefit receipt can be seen in their extension to unemployed 25–28-year-olds not eligible for unemployment benefits. When the unemployed mobilized in the winters of 1997 and 1998 to protest against the absence of minimum income protection for young people and other marginal groups in the labour market, Jospin responded that he wanted 'a society of work and not a society of assistance'. Similarly, the 1998 'law on exclusions' explicitly resisted calls to extend the minimum income programme to the under-25s, concentrating instead on measures to ease the transition into work for current recipients by reducing rates of benefit withdrawal. 'Making work pay' more than inactivity was also behind the Socialists' introduction of an in-work tax credit, the *prime pour l'emploi*. At the same time, though, it was designed in such a way as to avoid subsidizing 'very' part-time work, thus expressing a somewhat critical perspective as to excessive flexibilization of the labour market and a strong emphasis on 'quality in work' (Coron and Palier 2002: 126–30).

There thus seems to have been a certain ambiguity in the attitude of the French Socialists to the supply-side labour market reform agenda. Their stance on the reform of unemployment insurance provides the single best example of this. Jospin himself had argued that the activation of unemployment benefits was necessary as far back as his 1995 presidential election manifesto (Jospin 1995: 19). It was under the Socialist-led coalition that the main unemployment insurance benefit was renamed the 'return to work' benefit (*allocation de retour à l'emploi*, ARE), and its full receipt made conditional on the signature of an individual return to work plan (*plan d'aide au retour à l'emploi*, PARE). At the same time, though, the reform in question, which had been negotiated between the social partners, was long opposed by the government, and agreed by them only in a considerably watered down version. The reason is that there was more at stake in the reform proposal than the treatment of the unemployed alone. The politics of this reform, in fact, offers a valuable perspective on the difficulties of supply-side reform for the centre-left in France and the role a Third Way discourse could play in this context.

### *Politics*

It could be imagined that being in coalition with parties to their left, including Communists, would have been the major constraint on the PS in negotiating a reform of a public policy as ideologically charged as unemployment benefit. What was arguably at stake, however, in the seven-month tussle over activation of unemployment policy was not activation itself but rather the respective role of the state and the social partners in controlling this public policy. Certainly, the employers' confederation, the *Mouvement des Entreprises de France* (Medef), which was responsible for launching the reform, had at first argued that they were more interested in ends than in means. But the reform was, much like the supply-side agenda in the Third Way, framed as part of a much broader 'social reconstruction' (*refondation sociale*) that sought to define a new substantive and procedural basis for the French welfare state. As this whole programme was conceived by the Medef as a rebuke to the government after their anger at the 35-hours, it was somewhat over-determined that the procedural settlement they proposed would leave little role for the state.

This had considerable implications for the way they developed their propositions for activating unemployment benefits. In France, the social partners have always managed unemployment insurance on a bipartite basis, while the public employment service is under state control. In this governance context, the principal obstacle to activation policies in France has long been the jealous defence of institutional prerogatives by the

respective parties. But rather than suggesting a negotiated redefinition of roles, the activation policy the Medef proposed was instead premised on a maintenance and even reinforcement of the autonomy of the unemployment insurance system from the state. If there was to be greater functional integration between unemployment benefit policy and labour market policy, it would be on the basis of the administrative council of the unemployment insurance system—a formally private institution—having a greater say in the operation of the public employment service, as well as being free to dispose of any financial savings that might result. The government's steering capacity and margin of manoeuvre in labour market policy would thus be further circumscribed rather than enhanced.

It was almost certainly on these grounds rather than out of principled opposition to activation that the government at first objected to the reform. If they didn't say so openly, it was probably less to do with the PCF than because openly challenging the autonomy of social insurance from the state would have been politically risky. Across the political spectrum, there is widespread (if rhetorical) agreement that reducing the role of the state in social and economic life is the key to France's modernization. This ties in to a wider obsession, also cutting across political cleavages, with reinvigorating civil society that draws on a critical reading of the peculiar history of state–society relations in France (Laborde 2000). Even on the Left, many would concur with conservative President Chirac's judgement that the nationalization (*étatisation*) of unemployment insurance would be 'an extraordinary step backward' (Chirac 2000). The *Confédération Française Démocratique des Travailleurs* (CFDT) union had, after all, been driven to embrace the Medef's social reconstruction precisely because of the 'affront' of the government in suggesting that contributions to the unemployment insurance system might be recycled into the financing of the '35-hours' (see above). It was mainly to placate this constituency that the PS was ultimately forced to accept a watered down version of the reform, which allowed everyone to save face but ultimately did little for a more genuinely coherent activation policy.

The CFDT is the standard bearer of the so-called second Left (*deuxième gauche*), widely perceived to be the 'modernizers' on the French Left and, as such, in the words of Bouvet and Michel (2001: 25), 'the group closest to the Third Way position advocated by Tony Blair'. This observation underscores perfectly why the self-consciously centrist discourse of the Third Way would have been of so little use to Jospin in taking the lead on a more satisfactory unemployment insurance reform, even if he had chosen to adopt it. In France, themes like 'fostering the active development of civil society' cannot be used lightly, for they reinforce those who are simply opposed to political intervention—for whatever ends—in domains

like unemployment insurance, where the social partners have carved out a real, if somewhat precarious, autonomy. In this context, moreover, the theme of 'balancing rights and responsibilities' is strictly redundant, as many social rights (and responsibilities) are not even seen to be the proper business of politicians.

It was suggested that the abortive reform of unemployment insurance was symptomatic of the broader political difficulties facing the PS in developing a strong supply-side agenda for labour market policy. It is probably more accurate to see it as being at or near the centre of a vicious circle. While the inability for a government of the Left (or, indeed, the Right) to intervene legitimately and effectively in domains such as unemployment insurance doesn't at first glance explain their extremely interventionist policies of, say, working-time reduction or 'taxing' redundancies, on closer inspection these phenomena are plausibly linked. For the heaping of social functions on to the economy is far more explicable when it is politically impossible to adapt 'the social' to changing economic conditions. The more French governments intervene in the economy, the more social actors defend their role in the social security system, requiring the government—if it wants to have any strong policy at all—to intervene once more in the economy. Hardly an economically and socially virtuous spiral, the Socialists' electoral debacle in 2002 suggests that it is far from politically optimal for the centre-left either. But when the knot of political strategy, social security, and the economy is this involved, it would certainly take rather more than the one-size-fits-all solutions of the Third Way to cut through it.

#### **4. The Left, Labour Market Policies, and Politics in Germany**

##### *Policies*

The SPD was elected at the head of a governing coalition in 1998. Since that time, there have been frequent changes to German labour market policy, in some contrast to the perceived immobility of the German welfare state. In an initial period, policies owed more to the demand-side agenda pursued to an extent in France than the supply-side agenda pursued by New Labour. Job-creation schemes were expanded, especially in eastern Germany, while the protection of workers in the formal economy was reinforced. Gradually, however, policies have moved towards a supply-side orientation, with an increasing emphasis on raising the employability of job-seekers and the structural reform of benefits and labour market administration (cf. Blancke and Schmid 2003; Heinelt 2003).

The notion of the need to shift from an 'active' to an 'activating' labour market policy developed gradually in the early period of the Schröder government's tenure, emanating not from the government itself but rather from the 'benchmarking' group which was attached to the corporatist Alliance for Jobs (*Bündnis für Arbeit*). This group was responsible for coining the idea that labour market policy must 'promote and oblige' (*fördern und fordern*), which can be seen as an equivalent of the 'rights and responsibilities' concept of the Third Way. Although many of their more specific proposals were rather too controversial to be implemented, a certain number—individual labour market reintegration agreements, promoting temporary jobs, and short-term training courses—did find their way into the 'Job-Aktiv' Act implemented in January 2002.

More controversial measures were, however, proposed by a commission which was set up to investigate the reform of labour market policy and particularly the role of the Federal Labour Office (BA). In the run-up to the general election in autumn 2002, the left-wing coalition (and indeed the conservative opposition) pledged to fully implement the proposals of the commission, and after its narrow electoral victory the Hartz Recommendations—named after the chairman of the commission—were introduced in January 2003. These aimed mainly at organizational changes intended to make placement and labour market services more effective, to promote private job services, and to facilitate small-business start-ups. There were some moves towards promoting the development of a network of 'one-stop-shops' for all working-age benefit claimants, while geographical and suitable work-related aspects of job-search rules were more strictly defined (Schmid 2003).

While none of the above measures altered benefit structures or benefit entitlement, this will change in due course as a result of Schröder's so-called Agenda 2010. Against stubbornly high unemployment and low growth, this latest government proposal was passed by Parliament in October 2003, but only after some concessions had been made by the SPD leadership in order to secure a parliamentary majority for the ruling red-green coalition. These concessions, made to the Left of the party, would apply to recipients of means-tested unemployment benefit (guaranteeing minimum wage rates for job seekers, making the means test less extensive, and allowing higher disregards for retirement savings). However in December 2003 all of the concessions were removed again in response to the position of the U/CSU and their solid majority within the second chamber (*Bundesrat*). The most substantial change brought about by the reform will be the merging of general social assistance and unemployment assistance into a new 'unemployment benefit II' in 2005 which, in principle, has been welcomed by all major parties. For the vast

majority of current claimants of unemployment assistance this would represent a substantial decline of income maintenance and a shift towards a stronger benefit activation approach. Furthermore, the maximum duration of first-tier unemployment insurance benefits will be reduced from thirty-two months currently (for older claimants with long contribution records) to twelve months for most claimants, and eighteen for those over fifty-five. In his speech to Parliament in March 2003, Schröder claimed that this 'is the only way to both improve the incentive to take up employment and also be able to reduce non-wage labour costs'.

### *Politics*

When Schröder came to power, his first step was to reinvigorate the corporatist Alliance for Jobs that, as mentioned above, was responsible for some of the proposals that would eventually find their way into the Job-Aktiv legislation. The Alliance had in fact been set up under the previous Christian Democratic government, and broke down only when Kohl started pursuing more aggressively liberal policies from around 1997 (Busch and Manow 2001: 182). This shows how in Germany there is an expectation that labour market policy should emerge from a somewhat more complex, multi-actor process of political exchange than the simple British-style face-off between elected governments and public opinion. As the stalling of negotiations and eventual collapse of the alliance (under both Kohl and Schröder) also shows, this expectation places considerable constraints upon the ease with which radical reforms can be formulated and implemented (Hassel 2001).

The institutionalization of existing social protection and labour market policy adds to the difficulties of pursuing a coherent supply-side reform agenda. Vocational training and employee relations fall within the constitutionally guaranteed sphere of collective labour relations. As Wood (2001) has demonstrated, preserving the autonomy of this system has often led employers to resist statutory intervention, even if it is in the name of enhanced flexibility. The German social insurance system is certainly less autonomous from the state than unemployment insurance in France, but nonetheless integrates non-state actors into its administration, whose consent must therefore be secured for significant reforms. The BA was long organised on a similar tripartite basis, underpinned by a widely accepted principle of auto-administration (*Selbstverwaltung*). When the Hartz Commission proposed increasing the government's control over the BA to help promote a more coherent and ostensibly 'liberal' supply-side policy, this idea was resisted not only by the unions but also by the employers (Rehfeldt 2002: 132–3).

Another problem is that certain social policies (notably social assistance) have traditionally been under the financial and administrative control of local government, and their administrative integration with contribution-financed or federal state-financed measures raises thorny issues regarding the repartition of the financial benefits and burdens of any such reform. As constraining legislation must be approved by the upper house, 'veto players' can use their influence to block measures that go against their interests. It is plausibly for this reason that, although cooperation between social assistance offices and employment services has long been promoted, it has until recently remained something that local offices are free to negotiate on an ad hoc basis with each other rather than being systematically enforced (Clasen et al. 2001: 7).

The complexity of the German reform context also derives from the nature of the party system and its interaction with the layered institutional structure of the German polity. It has been pointed out that one of the reasons that the German SPD failed to reinvent itself more comprehensively while in opposition at federal level was that it remained in power at *Land* level (Busch and Manow 2001). The federal structure of the German state not only makes the costs of failure in national elections less high for political parties but also fosters heterogeneous interests within them. The differences between Schröder and his former finance minister Oskar Lafontaine were far more starkly ideological than any conflicts close to the centre of gravity of New Labour. With respect to labour market policy specifically, a 2001 report by a working group (*Projektgruppe 'Zukunft der Arbeit'*) highlighted the SPD's internal divisions perfectly. In this, 'traditionalists' advocated the further development of a 'second labour market', while 'modernizers' emphasized the need for more placement, training, and initiative on the part of job-seekers themselves to find unsubsidized employment in the normal labour market (Heinelt 2003). The Christian Democrats, too, are internally differentiated, with a long prominent social wing as well as a more conventionally liberal business wing (Wood 2001: 392). Elements from within the Christian Democrats—notably Horst Seehofer, a former social affairs minister—were reported to be opposed to certain propositions made by the Hartz Commission for being too liberal (Rehfeldt 2002: 133). A social democratic party that adopts a more centrist discourse is unlikely to reap as much electoral benefit in this context as in the more polarized British one.

Given these contextual conditions, it might seem all the more surprising that Schröder actually *did* endeavour to develop an explicitly centrist discourse and strategy, which he referred to as the 'new middle' (*Neue Mitte*). He even went as far as jointly publishing a paper on centre-left politics in Europe with Tony Blair (Blair and Schröder 1999). But the

papers reception was predictably, much cooler in Germany than in Britain. Schröder's new middle was fiercely contested and remains highly controversial long after the heated, but brief, discussion it provoked (Jeffrey and Handl 1999). Whereas in Britain the Third Way was a rhetoric with which Blair could sell his domestic policies, in the German context it more likely inflamed opposition to current and ongoing changes. It no doubt played, however, a subtler agenda-setting role by propagating certain ideas and themes that could be attached to more radical policy ideas in the future.

For the present, though, contingency and crisis (persistently high levels of unemployment, low economic growth, soaring public deficits) appear to be better allies to would-be reformers in Germany than a discourse like the Third Way. Contingencies such as the scandal surrounding the misrepresentation of placement figures at the BA in early 2002—which gave rise to the Hartz Commission—can be exploited to float policy reforms which are difficult to place on the agenda at other times. More recently, the gloom surrounding the economic situation in Germany has rendered radical reform proposals possible, as with the current Agenda 2010, whereas the improving economic situation in the first part of the first Schröder government probably acted as a brake on reform (Blancke and Schmid 2003). In the current environment, themes such as the immediate need to reduce non-wage labour costs or to reduce Germany's budget deficit are more plausible points of consensus than calls for an ideological *aggiornamento*.

## 5. Conclusions

Reforms at the frontier of the welfare state and the labour market that have been pursued by recent or current centre-left governments in Britain, France, and Germany are less dissimilar than their political rhetoric would often suggest. All have sought to recast the work-welfare interface in the pursuit of a renewed balance between economic dynamism and social justice, in response to a common set of changes in the environment of the contemporary welfare state. The changes are sometimes overstated, but some very real developments do oblige centre-left parties to adapt their policy programmes. The transition from an industrial to a service economy, and the accompanying need for flexibility to ensure that this transition is compatible with high rates of employment, are trends that go beyond national borders. So too are processes of population ageing, which drive governments, including those of the centre-left, to think increasingly about how to optimize the utilization of the potentially active population or at least minimize its flagrant under-utilization (see Chapters X in the

present volume). As has been pointed out before (Bonoli and Powell 2002; Hall 2002), though, it is inevitable that the efforts and preferred policy paths of social democratic parties in different countries will be mediated by distinctive institutional legacies and political economy traditions.

In this spirit, the different policies pursued by the British, French, and German centre-left have sometimes been presented as local *variants* of a broader Third Way (Hall 2002). This, however, only perpetuates the conflation of particular policies and a particular style of political discourse and, ultimately, unduly dignifies the proselytizing tendencies of the current British administration. Promoting the Third Way abroad may serve Blair's international and European ambitions well but, this chapter has suggested, does not necessarily do much to help the centre-left elsewhere in Europe as it grapples with difficult reforms. Though some manifestly progressive reforms have not been adopted in France or Germany, this is not because of the ideological blinkers or the ignorance of their centre-left parties. It is rather because it is simply more difficult politically to recast social compromises that, in countries like France and Germany, are far more complex and institutionalized than in Britain. In such contexts, a Third Way political discourse may ideologically antagonize opponents of reform, reinforce the legitimacy of the status quo, or both.

This chapter has particularly emphasized the role played by different models of governance in determining both the viability and the helpfulness of a Third Way discourse in contemporary welfare and labour market reform. In the British governance context such a discourse is both viable, because it is expected that governments will take a lead in the development of social policy, and to an extent helpful, because it can play a role in cementing an at least temporary coalition behind supply-side labour market reform. In the French or German context it is far less viable, because it is not generally expected or approved of that elected governments will go over the heads of established policy-making partners in an appeal to public opinion. Nor, in any case, would it be likely to be helpful. The Third Way's utility to Blair in Britain seems to have been in broadening the appeal of essentially pragmatic policies by simultaneously paying lip-service to the more radical-sounding ideas of decentralization or of debureaucratization. But in the governance context of the French and German welfare states—long characterized by an elaborate interweaving of the public and the private, and in which the key to reform appears to be enhancing the autonomy of elected governments to act in the social sphere (cf. Jobert 1996; Palier 2001; Streeck 2003)—such a discourse can only be counter-productive. To the extent that the centre-left in these countries has long been pursuing a particular brand of centrism—as the idea of the 'Christian Democratization' of social democracy in Germany and elsewhere

suggests (for example, Seeleib-Kaiser 2002; see also Navarro 1999)—then the real challenge is probably not to justify the principle of a more active labour market policy but to legitimize the statism on which its more coherent development and deployment depends.

Schmidt (2002) has argued that the careful exploitation of discourse can play a role in promoting progressive reform, but also that different discourses are needed in different contexts. We should therefore not expect very structurally different welfare states to be responsive to the same political rhetoric. This is all the more true if one of the key dimensions of welfare state variation is precisely their degree of embeddedness and depoliticization or, inversely, of vulnerability to political conflict. Accordingly, aggressively promoting a single reform discourse in very different contexts is likely to be of little help in promoting policy convergence, and may even inadvertently have the opposite effect. Only analysis that is sensitive to the institutional differences between welfare states, to the diversity of their ideological embeddedness, and to their variable links to party politics can hope to identify the differing roads to centre-left modernization in general and more precisely to the various context-specific recipes for the development of a coherent and virtuous social and labour market policy for the centre-left.

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