

THE POLITICS OF THE 'THIRD WAY'

The Transformation of Social Democracy in Denmark and The Netherlands

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ABSTRACT

The development of European Social Democracy has once more attracted significant scholarly attention. This time, the debate is centred around the 'third way' as the catchphrase for the transformation of European Social Democracy. Based on the experience of the Danish and Dutch Social Democrats, two questions are raised in this article, namely what has caused the renewal of Social Democracy and what explains different sequences of change in different countries? The answer to the first question is that the transformation is driven by the search for a new formula for combining social justice and effective economic governance after the failure of the Keynesian formula in the 1970s and 1980s. This, and not so much changes in the preferences of the electorate in a liberal and libertarian direction, is driving the transformation. The answer to the second question is that differences in the strategic situation of the Social Democratic parties in terms of office-seeking and holding on to power explain different sequences.

KEY WORDS ■ Denmark ■ party change ■ Social Democracy ■ The Netherlands ■ 'third way'

Introduction

In 2000, Social Democratic parties were in office in most West European countries, which sparked off a new wave of academic study on Social Democracy (e.g. Glyn, 2001; see Powell (2001) for an overview). The debate has centred around the concept of the 'third way' as theoretically elaborated by Giddens (1998, 2000, 2001) and politically advanced, for instance, in the Blair-Schröder paper (1999).

The 'third way' debate has both a policy and a politics side to it. The *policy side* is about the kind of policies that Social Democratic governments pursue in an environment that has changed significantly since many Social Democratic parties were last in government at the beginning of the 1980s (Green-Pedersen et al., 2001). The aim of this article, however, is to investigate the *politics side* of the 'third way'. We pose two main questions: first, what has caused Social Democratic parties to enter the 'third way'? Second, how can the different sequences of change be explained (variation between countries)? Our empirical basis for answering these questions is the development of the Danish and Dutch Social Democratic parties. The choice of these cases is based on the theoretical considerations of the article and is justified below.

In regard to the first question, we argue that the impetus to reform European Social Democracy comes from the problems of pursuing Keynesianism as a general strategy for economic policy. In the post-war period, Keynesianism provided a politically attractive formula for combining effective governance of the economy with the expansion of the welfare state. However, in the 1970s, Keynesianism started to produce macro-economic failures that provided Social Democratic parties with an electorally harmful image of being unable to govern the economy. The post-war project of combining economic prosperity and social justice in itself did not lose its attraction to the electorate. Yet, in order to remain competitive in terms of vote-seeking, Social Democratic parties were forced to find new ways of combining the two.

Concerning the second question, we argue that the most important factor explaining different sequences of change is the strategic situation of the Social Democratic parties in terms of office-seeking. The need in practice, and not just in rhetoric, of combining effective governance of the economy and promoting social justice is much more pressing in government than in opposition. Thus, the extent and timing of office power in the 1980s and 1990s mattered for the exact time when different Social Democratic parties began to change in a 'third way' direction. Furthermore, in the (many) countries where coalition-building is necessary for Social Democratic parties to achieve government power, such coalition-building has been important for their willingness to enter a 'third way' course. For instance, in The Netherlands, the need to accommodate a pivotal Christian Democratic center party led the Social Democrats on a 'third way' course *avant la lettre* already in the mid-1980s.

The article is organized in four further sections. In Section 2, different theoretical arguments about the dilemmas and strategies of Social Democracy are discussed and the theoretical approach of the article is presented. Section 3 is a short overview of the development of Social Democracy in Denmark and The Netherlands until 1982 with a focus on the 1970s. This is crucial because the experiences in this period have shaped the strategies of the Social Democratic parties in the following two decades. Section 4 is

a comparison of the strategy of the Danish and Dutch Social Democrats when in opposition in the 1980s and in government in the 1990s. In the concluding section we summarize our findings and discuss the implications of our argument with regard to the electoral appeal of the 'third way' and the permanency of the changes to Social Democracy.

Theoretical Perspectives on European Social Democracy

No other type of political party has received as much scholarly attention as Social Democracy. Classical studies dealing with the dilemmas and choices of the movement and parties include Przeworski (1985), Esping-Andersen (1985b) and Przeworski and Sprague (1986). The most recent classic in this large body of literature is Kitschelt's study (1994 and 1999) of the strategic dilemmas and electoral lot of Social Democratic parties in Western Europe.

According to Kitschelt (1994: ch. 1), the basic challenge to European Social Democracy comes from a shift in voters' preferences in both a more libertarian and a more liberal direction. This shift in voter preference, combined with a number of other factors, results in three crucial dilemmas (Kitschelt, 1999: 322–33). The first is labelled the 'political-economic dilemma'. Social Democratic parties have often been voted out of office because they have not embraced economic liberalization policies, and on the occasions when they have done so they have frequently suffered electoral decline. The second dilemma stems from the emergence of libertarian versus authoritarian politics as a new political cleavage and the entrance into parliament of left-libertarian parties. Social Democratic parties must either try to maximize their own vote-share by moving towards a left-libertarian position that will limit the space for left-libertarian parties or try to gain office by winning the median voter, but then giving more space to left-libertarian parties. The third dilemma is the party-organizational dilemma. European Social Democratic parties face a choice between either adhering to a mass party organization with the danger of programmatic immobility or making the party more open to programmatic change but also more difficult to place for the electorate. These three dilemmas are interconnected so that how Social Democratic parties respond to one dilemma will affect how they respond to the other two.

Kitschelt's aim was to explain both the strategic moves of the Social Democratic parties and their electoral lots. We have no such ambitious aim. We will, however, try to make a critical contribution, as we do not agree with Kitschelt that the basic driving force behind the recent transformation of European Social Democracy is a shift in voters' preferences. Without arguing that nothing has happened to the electorate during the last 20 years or so, we disagree with Kitschelt that Social Democracy has taken a 'third way' course because the electorate has shifted in both a more liberal and libertarian direction. First, European citizens have in general not become

neoliberals wanting to dismantle the welfare state (Borre and Scarbrough, 1995; Kuhnle, 2000; Svallfors and Taylor-Gooby, 1999). In fact, the social justice idea contained in the Social Democratic post-war project still has considerable political appeal. Second, survey evidence from Denmark and The Netherlands does not suggest that voters being right-wing on old politics and left-wing on new politics constitute a group that is forcing Social Democratic parties to change as implied in Kitschelt's analysis (1994: ch. 1). For instance, in Denmark, they only constitute 11 percent of the electorate, while the voters being left-wing on the old politics, but right-wing on the new politics, constitute 31 percent. Of the 'post-materialist' voters in The Netherlands, 8 percent consider themselves to be right-wing. Approximately 20 percent of those who view themselves as left-wing on old politics are right wing on the new politics. Therefore, it seems that it is the latter group in particular that is causing the Social Democrats in both countries the most trouble (Borre, 1999; Dutch Parliamentary Election Study, 1998; Thomassen et al., 2000). By implication, we do not think that the second dilemma sketched above is that important. Yet, we agree with Kitschelt that in order to understand the choices of European Social Democracy, one needs to study its strategic situation in terms of office- and vote-seeking. Furthermore, the major challenge facing European Social Democracy concerns the political-economic dilemma. The battle over office and votes with traditional parties such as conservative and Christian Democratic parties has been decisive.

The political-economic dilemma is fundamentally about how to interconnect a sound economic policy and the welfare state. For a long time, Keynesianism offered a politically auspicious way to combine the expansion of the welfare state with an effective governance of the economy. What was socially just was also economically efficient. During the 1970s and 1980s, however, this formula started to break down. Many governments responded to the economic problems in the wake of the two oil crises by Keynesian means. Yet, in many cases they were not simply unsuccessful, but, in fact, just made things worse. The most prominent example was the Keynesian strategy of the French socialist government at the beginning of the 1980s. This strategy failed and resulted in a U-turn in terms of economic policy. What was just no longer seemed efficient and this provided European Social Democracy with a major challenge.

The policy failures of the 1970s were fertile ground for the conservative governments that came into power in the 1980s. As indicated in several studies (Boix, 1998; Huber and Stephens, 1998; Iversen, 1998, 2000), the problem of European Social Democracy was that the changed economic environment undermined the effectiveness of many policy measures that before had made it possible for the parties to combine social justice and economic prosperity. The new economic environment perhaps has not made it entirely impossible to combine the two goals, but it has made it significantly more difficult. This political-economic dilemma has been the impetus

for change in European Social Democracy and thus provides an answer to the first question raised in the introduction.

In order to answer the second question about sequences of change, one needs to look at the strategic context of the individual parties. As Kitschelt (1994, 1999) stresses, the political-economic dilemma in itself does not determine the strategy of Social Democratic parties, because it has varied from country to country. In countries like Austria and Sweden, Social Democratic governments were actually able to respond more or less successfully to the economic challenges in the 1970s and early 1980s (Scharpf, 1991). They were also not voted out of office as Social Democratic parties were in many other countries. However, around 1980, Social Democratic governments in countries such as Denmark, Britain, The Netherlands, Germany and Norway lost government power after having responded to a greater or lesser extent unsuccessfully to the economic challenges. Furthermore, in none of these countries were the Social Democratic parties able to regain power quickly. In Germany and Britain, it actually took until the end of the 1990s.

As argued elsewhere (Green-Pedersen et al., 2001), the gist of the emerging 'third way' is a fairly coherent set of ideas and supply side policies. At the ideological level, the emerging 'third way' includes an acceptance of the market as a superior mechanism for arriving at certain outcomes. This is what makes the 'third way' different from 'old' Social Democracy. The 'third way' ideology also encompasses an important role for strong state intervention and this is what distinguishes it from neoliberalism. On the one hand, one finds policies such as cuts in personal income taxes, social security retrenchments and increased labor market flexibility that aim at strengthening the economic incentives to work and are effectively market-oriented policies. On the other hand, there is strong state intervention in the form of active labor market policies and social investments that are also crucial elements in the policy-mix of the 'third way' Social Democratic parties in government. The core of the 'third way' is about job creation and labor market participation and the means towards achieving these goals are both the market and state intervention.

Based on these considerations, our reasons for studying Denmark and The Netherlands can now be stated. In both countries, Social Democratic parties have faced the political-economic dilemma in the sense that they both became associated with catastrophic macro-economic outcomes in the 1970s and were then forced into opposition for a long time. They were, however, able to regain government power at an earlier stage than, for instance, their German and British counterparts (1989 in The Netherlands and 1993 in Denmark), even though they both have recently lost power again. Thus, in both countries it is possible to observe the reactions of the Social Democratic parties to the political-economic dilemma once in government, and the Social Democratic governments in both countries have pursued 'third way' policies (Green-Pedersen et al., 2001). Furthermore,

their strategic context in terms of office-seeking has varied. In the Dutch case, the pivotal system of party competition made cooperation with the Christian Democratic center unavoidable, at least until 1994, if the Social Democrats were to regain power. In Denmark, the bloc nature of party competition implied that in the 1980s the Social Democrats' only realistic chance of regaining office was to achieve a majority with the more left-wing Socialist People's Party (SF). As is shown in the next two sections, the difference in strategic situation has strongly influenced the transformation of the two parties.

Post-War Development of Social Democracy in Denmark and The Netherlands

Historically, the Danish Social Democratic Party, *Socialdemokratiet i Danmark* (SD), has been reform-oriented and focused on political compromising (Christiansen, 1994). In the post-war period, the party, mainly in collaboration with the Social Liberals, was in office most of the time and continuously from 1953 to 1968. The major challenge before the 1970s was the entrance in parliament of the SF in 1960, which unlike the Communists appealed to a broad segment of the electorate. Thus, at the beginning of the 1970s, the strategic situation of the Danish Social Democrats was becoming more difficult and – as Esping-Andersen (1985b) argued – party decomposition was threatening Social Democracy.

Like the Danish party, the Social Democratic Party of The Netherlands, the *Partij van de Arbeid* (PvdA), has been reform-oriented and focused on political compromising (Perry et al., 1994; see also van Kersbergen, 1999). In fact, the PvdA unwillingly became one of the crucial actors in the 'politics of accommodation' game (Lijphart, 1968), that is to say the elite strategy aimed at finding a workable compromise between the socially and culturally relatively separated religious and non-religious segments of society (the social and political system known as pillarization). The history of Dutch Social Democracy has been a continuing attempt to overcome the politics of accommodation and political minutiae that went with it (Orlow, 1995).

Towards the end of the 1960s, a younger generation, known as 'New Left' (*Nieuw Links*), was taking over the PvdA partly with a focus on post-materialist values and democratization. At the same time, changes of society in the form of depillarization and deconfessionalization provided the structural background for a new ideological offensive that came to characterize Dutch Social Democracy in the late 1960s and early 1970s known as the polarization strategy. The aim of this new vote- and office-seeking strategy was to blow up the traditional party system with its roots in the polarized society and especially put an end to the pivotal position of the Catholic party by seeking new forms of cooperation with other leftist parties.

At the beginning of the 1970s, the Social Democratic parties in both countries were thus in a period of transition. The Danish Social Democrats were facing a more competitive situation and the Dutch party was hoping for new opportunities with the breakdown of pillars in Dutch society. In both countries, the 1970s became a turbulent period in party politics.

In Denmark, the 1973 election, known as the earthquake election, shook the party system significantly. All the parties represented before the election lost significantly, and the Social Democrats lost one-third of their seats (Pedersen, 1988). The landslide election coincided with the first oil crisis. As described by Nannestad (1991, see also Nannestad and Green-Pedersen, forthcoming), the Social Democratic governments¹ in the 1970s tried a number of economic strategies, but none of them really worked and Denmark's economic situation deteriorated steadily. The problems mounted especially after the second oil crisis (*op. cit.*).

The catastrophic response of the Danish governments to the economic challenges of the 1970s had not just to do with the situation of the Social Democrats. After the landslide election, coalition-making in parliament was at times extremely difficult (*cf.* Green-Pedersen, 2001). However, the situation of the Social Democrats played an important role. Responding effectively to the economic challenges was difficult for them because it involved an effective income policy. Wage-restraint, however, was a troublesome question for the Danish Social Democrats and the trade union movement. Income policy measures in Denmark had always been shaky (Esping-Andersen, 1985a, b) and this time the question became interwoven with the question of economic democracy.

The idea of economic democracy had become a central element in the strategy of placing the Social Democratic party 'clearly to the left of the centre in Danish politics', as its leader expressed it (Callesen, 1996: 16; Dalgaard, 1995: 188–236), and the party manifesto, adopted in 1977, emphasized the question (Socialdemokratiet, 1977; *cf.* also Dalgaard, 1995: 239–52). None of the other political parties supported the proposals, not even the other left-wing parties. Yet, the Social Democrats and especially the trade unions continued to make the issue a demand for an effective income policy. The result was a tense relationship between the trade unions and the Social Democratic party and the steady deterioration of the Danish economy.

In The Netherlands, the polarization strategy did seem to be a success for the PvdA when it was able to form the Den Uyl government in 1973 (Ramakers et al., 1998; Van Praag, 1991). In this government, the PvdA prevailed numerically and politically, even though the coalition was still dependent on the support of the Catholic party. However, the polarization strategy unintentionally gave momentum to the regrouping and concentration of protestant and catholic political forces which, in turn, led to the foundation of the united Christian Democratic party in 1977 (Ten Napel, 1992; Verkuil, 1992). The more radical changes which the Den Uyl government aimed at,

such as income redistribution, public housing policy, profit sharing, time and again were blocked by the majority voting alliances of Conservative Liberals and the Christian Democratic parties (Bootsma and Breedveld, 2000; Ramakers et al., 1998). The response to the first oil crisis was a traditional Keynesian policy mix that included a further expansion of the welfare state. However, the economic record of the Den Uyl government was poor. Unemployment increased steadily, inflation reached double digits in 1975, and the budget surplus turned into a deficit in 1974 (Griffiths, 1980).

The PvdA actually had its best election ever in 1977, but ironically this election also put an end to the success of the polarization strategy. The new Christian Democratic alliance managed to stabilize its electoral strength and entered a coalition with the Conservative Liberals. In particular the Conservative Liberals stressed time and again that their task in government was to put a halt to the spendthrift Social Democrats and to manage the economy properly. When after the electoral loss in 1981 the PvdA entered a coalition with the Christian Democrats, the latter demanded that the Social Democrats took responsibility for retrenching the welfare state and agreed to austerity policies. The PvdA accepted retrenchment of sickness benefits, but this quickly caused a fierce conflict with the labor movement and the retrenchment was given up. This episode, however, contributed considerably to the spendthrift image of the PvdA and turned the PvdA into an unreliable coalition partner in the eyes of the Christian Democrats (cf. Anker and Oppenhuis, 1989). The government stepped down and the PvdA was back in opposition until 1989.

For both the Danish and Dutch Social Democrats, the outcome of the political turbulence in the 1970s was disastrous in many ways. Both parties had chosen a fairly traditionalist leftist course which had made life difficult for them in terms of economic policy making. In both countries, the failure of the Keynesian strategies pursued was thus blamed very much on the Social Democrats who had acquired an image of being unable to govern the economy. Both parties had also lost government power. Their strategic position in terms of regaining it, however, differed, which strongly influenced their strategy in the 1980s.

The 1980s and 1990s: Two Different Roads to the 'Third Way'

In Denmark, the Social Democratic Prime Minister had simply resigned in 1982 and handed over government responsibility to the non-socialist government. The Danish electorate got the impression that the Social Democrats could not govern the economy and simply gave up, and the image lasted (Andersen, 1995).

Along with most observers, the Social Democrats expected the non-socialist government to be short-lived, yet non-socialist governments stayed

in office in Denmark for more than 10 years. For the Social Democrats, this implied the longest period in opposition since the party first gained office in 1924.

From the beginning, the opposition strategy towards the non-socialist governments was generally uncompromising. After taking office, the government launched a crisis solution to save the Danish economy. The Social Democrats vehemently attacked most elements of this crisis solution (Green-Pedersen, 2000). This line was continued after the 1984 election, when the right-wing government gained a majority with the Social Liberals alone, and can be explained as a rational office-seeking strategy (see Green-Pedersen, 2000: ch. 9). The non-socialist government came to power in 1982 because the Social Liberals changed side in the Danish parliament and thus tipped the balance in favor of the non-socialist parties. The Social Liberals tied themselves closely to the non-socialist government especially after the 1984 election. Accommodating the Social Liberals through a centrist and compromising course seemed futile in terms of regaining office. They had only one realistic way of regaining office, namely to gain a majority with SF. In order to succeed, the Social Democrats needed not to move too far away from SF, as a centrist course would have implied. Furthermore, the party needed to gain some additional votes. Opposing cuts in social security was one promising way to achieve this.

At the 1987 election, the government lost its majority with the Social Liberals, and this gave the Social Democrats new hope. However, after another election in 1988, the Social Liberals joined the non-socialist government and regaining office was again only possible if the Social Democrats could win a majority with SF. The party therefore continued its non-compromising strategy towards the government. To bring the Danish economy out of the recession it had entered into in 1988, both a labor reform and a tax reform were intensively debated. The government tried to get the support of the Social Democrats for such reforms, but this failed.

This line caused tension in the relationship between the party and the trade union movement. In 1987, the unions with their participation in a wage-moderation declaration indicated that they had accepted the new economic policy of the non-socialist government. In light of this, the trade unions also wanted the Social Democrats to accept the new economic policy and be more compromising when negotiating with the government. However, for the Social Democrats, the only realistic chance of regaining office was still to gain a majority with SF and supporting, for instance, unpopular labor market reforms did not seem the way to achieve such a majority.

The 1990 election was a major victory for the Social Democrats, but also a pyrrhic one. The Social Democrats did not gain a majority with SF and the small center parties still wanted the non-socialist government, which could continue but without the Social Liberals. Not being able to regain government power, despite the victory at the election, was a major disappointment

for the Social Democrats. However, after the 1990 election, the chances of regaining office improved. The three small center parties began to distance themselves from the government, indicating that they considered a change of side (Green-Pedersen, 2000: ch. 9).

This development, and the fact that the attempt of winning office with the support of SF had not been successful, caused the Social Democrats to choose a more centrist course. The new party manifesto adopted in 1992 (*Socialdemokratiet i Danmark, 1992*) focused much less on economic democracy. The Social Democrats also supported the budgets for 1992 and 1993. However, the change of course should not be overstated. Economic democracy was still an issue in the party manifesto, and in practical politics the Social Democrats were still unwilling to support, for instance, major cutbacks in unemployment benefits. Thus, despite the Social Democrats moving away from the left-oriented line of the 1970s at the ideological level (cf. Petersen, 2001), the party did not in real politics embark on a 'third way' course before 1993.

At the same time the frustrations within the party that it could not bring the non-socialist government to an end were obvious. The frustration culminated in the spring of 1992, when the party elected a new leader, Poul Nyrup Rasmussen, after a process that comes close to a coup. Then in 1993, the party finally regained power. After a scandal case, the three small center parties in Danish politics withdrew their support for the conservative/liberal government and formed a government with the Social Democrats.

With the 10 years in opposition in mind, holding on to government power has been crucial for the Danish Social Democrats. Both the Center Democrats and the Christian People's Party stepped out of the government, but with support from the other left-wing parties the Social Democrats and Social Liberals managed to stay in office until 2001. What had been clear to the Danish Social Democrats was that in order to hold on to power they had to manage the economy much better than they did in the 1970s. They had to remove the image of being unable to govern the economy, and this constitutes one of the keys to their 'third way' policies. The Social Democratic-led governments, for instance, implemented a major retrenchment of the early retirement scheme and several labor market reforms involving significant retrenchment of unemployment benefits, but also a much stronger focus on active labor market policies (Green-Pedersen et al., 2001). The recent working program of the party (*Socialdemokratiet i Danmark, 2000*) also strongly stresses good economic governance and does not mention economic democracy at all.

Choosing this 'third way' course has caused trouble for the party, however, both internally and in relation to the trade unions. Internally, a division between a part of the party known as the 'traditionalists' and another part known as the 'renewers' has emerged. This division was visible in connection with the retrenchment of the early retirement scheme, which caused a fierce debate within the party, but has also surfaced in connection

with the question of contracting out of social services (Green-Pedersen, 2002). The leadership of the party has also been in conflict with sections of the trade union movement, especially the trade unions for semi-skilled workers, which have strongly supported the traditionalists. At the same time, the formal ties with the trade union movement have been loosened.

In The Netherlands,² a center-right coalition took office in the autumn of 1982, launching an austerity policy with many similarities to the one of the non-socialist government taking office in Denmark (Green-Pedersen, 2000). In a way, the situation of the PvdA was more complicated than that of the Danish Social Democrats. Based on the polarization strategy of the 1970s, a fierce opposition response was logical. However, in order to regain office, collaboration with the Christian Democrats was unavoidable as long as the Conservative Liberal Party and the PvdA excluded each other as potential government partners (Gladdish, 1991). This dilemma dominated the agenda of the PvdA in the 1980s, a period that can best be understood in terms of a search to reformulate the ideological principles and come to terms with the loss of government power. 'Polarization' remained the basic strategy until the mid-1980s. At the elections of 1986, the PvdA managed to win 33.3 percent of the vote, the party's second best electoral outcome ever, mainly as a result of a successful mobilization of popular discontent with the center-right government's austerity policies. However, the electoral victory became a 'defeat disguised as victory' as the party was unable to enter a government coalition. This combination of success in vote-seeking but failure in office-seeking forced the party elite and activists to reorient themselves more fundamentally, particularly with respect to their conservative (i.e. anti-reformist) welfare statism (Wolinetz, 1996). An influential elite faction started to accept the need for fiscal responsibility, particularly as a means towards regaining power. This was challenged by the more traditionalist labor wing, and since the mid-1980s a continuous struggle between the traditionalist rank-and-file and the power-oriented modernizers has characterized intra-party relations (Van Praag, 1991; Wolinetz, 1993). Electorally, the new office-seeking strategy of the party elite had unfavorable consequences as the party lost the support of its radical wing to its left competitors. At the same time, the party managed to become a more acceptable coalition partner and closed a deal with the Christian Democrats, who argued that they needed the Social Democrats for welfare state reform. The PvdA re-entered the government in 1989 and the 'third way' direction became much more evident.

In a more than symbolic attempt to prove that Social Democrats can be prudent spenders too, the Social Democratic party leader became the Minister of Finance responsible for the reduction of the budget deficit. Obviously, this could not be achieved without cutting back on social spending. In 1991 the PvdA decided to approach the problem of the disability scheme which had got out of hand. Originally meant to support no more than around 200,000 people, the scheme was paying over 900,000 benefits in

1990 (Visser and Hemerijck, 1997). The PvdA was internally divided over the proposed measures. The party leader, Wim Kok, almost fell over the disability issue, and the party's representatives in parliament remained ambiguous towards the reform (Hemerijck and van Kersbergen, 1997: 272). The costs were high for the party because the PvdA experienced a hemorrhage of its membership. Moreover, the relationship between the party and the trade unions deteriorated. The unions sharply criticized the proposed reforms and tried to circumvent the effects of retrenchment by demanding the inclusion of supplementary benefits in the collective agreements. Not surprisingly, the governmental period was electorally costly too. The Social Democrats were held responsible for what the union members among the voters in particular interpreted as an attack on established rights. The party did not recover in time and at the elections of 1994 it was punished with a defeat. It won only 24 percent of the vote (Wolinetz, 1995).

In spite of the defeat, and thanks to an even bigger electoral loss of the Christian Democrats, however, the PvdA became the largest party in parliament and therefore secured the initiative in forming a new government. The government that was formed was a coalition of Conservative Liberals, Radical Democrats and Social Democrats and excluded, for the first time in history, the Christian Democrats. The formation of this so-called 'purple' government has broken the pivotal position of the Christian Democrats and fundamentally changed the political game in The Netherlands.

These developments freed the PvdA from the necessity to emphasize a traditional social policy profile that had always been strongly oriented towards possible compromises with the Christian Democrats and prepared the way for innovation along the lines that one can recognize as proto-'third way' politics (Green-Pedersen et al., 2001). In stark contrast to the 'old' PvdA that – with an eye on the Christian Democrats – had always tended to promote generous yet passive social policies (benefits and other transfer payments), the 'new' Social Democrats began to promote active labor market policies at the expense of passive transfer spending and welcomed market solutions as possible alternatives to both corporatist and statist policy mixes. Equality was increasingly defined in equal opportunities on the labor market and social inclusion. Interestingly, the change in policies paid electorally as the party – after two electoral defeats in a row – won 8 seats at the elections of 1998 (Irwin, 1999).

The struggle between modernizers and traditionalists continued after the party regained office. In 1992 the chairmanship was divided between an agent of the union wing and a representative of the professional modernizers. The latter, Felix Rottenberg, attempted to transform the traditional membership organization into a professional campaign party by dismantling the local branches and the party council through which members could exercise power over the professional party elite. Rottenberg also managed to alter radically the list of candidates for the 1994 elections. As a result, a significant group of atypical, more liberal-oriented representatives of the

party entered parliament. This group has been instrumental in forging the coalition with the Conservative Liberals and through them the 'third way' has established itself firmly at the level of the party elite. Since Rottenberg's illness in 1997, the party rank-and-file and the traditionalists have attempted to recover ground. In fact, the dominant theme of the recent campaign for the chairmanship (2000) was restoration of the membership party at the cost of the influence of the professional party elite. The new chairman, Ruud Koole, who was elected against the official candidate of the party's professional elite, is a moderate traditionalist who is attempting to rebuild the party as a membership organization.

We have focused on the questions relating to office-seeking and holding on to power because we believe them to be the most important ones in the transformation of European Social Democracy. Yet, this does not imply that other factors can simply be neglected. In both countries, the transformation of the Social Democratic parties has resulted in still ongoing internal struggles. In neither of the two countries has the traditionalist been able to block a transformation of the parties. Yet, as indicated by the recent election of a traditionalist party chairman in The Netherlands and the debate over contracting out in Denmark, the traditionalist wings are not without power. A further factor having influenced the transformation of Social Democracy in the two countries is their relationship with the trade union movements. In The Netherlands, the connection has been fairly loose, at least since the late 1960s, and the Dutch Social Democrats have not been forced to pay as much attention to the trade union movement as the Danish have. In the 1970s, the strong focus of the Danish trade unions on economic democracy made life very difficult for the party. Today, sections of the trade union movement also strongly support the traditionalist camp. Despite the loosening of the formal ties between the party and the trade unions, this is one of the main political obstacles to the 'third way' the Danish 'modernizing' Social Democrats are facing.

Concluding Remarks: The Dilemmas of the 'Third Way'

Comparing the transformation of the Social Democratic parties in Denmark and The Netherlands, the similarities in terms of both starting point and current position are striking, but the sequences of change have been different. To regain and hold on to office power, the parties in both countries have been forced to free themselves from the economic failure image acquired during the 1970s, and this has required a new economic strategy. However, to argue that the transformation of Social Democracy in the two countries is simply a necessary adaptation to new economic realities would be to relapse into functionalist arguments. The sequences of change are crucial. Here, the importance of office-seeking and holding on to power is evident in both cases.

Compared to Kitschelt's analysis, we have put no emphasis on the question of 'new politics' in relation to the transformation of European Social Democracy. This is because the transformation has not primarily been driven by changes in voter preferences. The 'new politics' dimension has certainly become visible among the Danish electorate, but it has not happened before the 1990s. Furthermore, the challenge it poses to Social Democracy is rather different from what Kitschelt suggests. As demonstrated during the recent Danish and Dutch elections, one of the main challenges to Social Democrats today comes from the strong politicization of questions relating to refugees and asylum-seekers. On this question, the core electorate seems much further to the right than the party. In The Netherlands, the new politics was initially almost entirely overdetermined by the anti-pillarization polarization of the 1970s. The Dutch Green-Left Party is now a formidable competitor on the Left, but it is the anti-pillarization party D66 that suffers most from this. In addition, the Green-Left, following the German example, has left its exclusive vote-seeking orientation and has started to stress its willingness to govern. As a result, it has lost some of its bite as a competitor of the Social Democrats. Altogether, even though the 'new politics' dimension has gained some importance, 'old politics' questions are still decisive in relation especially to government formation, and it is there that one has to look in order to understand the transformation of Social Democracy up to today. Yet, the recent Danish and Dutch elections show that that might change in the future.

Another question relates to the electoral appeal of the new 'third way' course. In both countries, some of the new 'third way' measures have caused electoral decline for the Social Democrats. The reaction of the Dutch electorate to the reform of the disability system was mentioned above, and in Denmark a similar reaction to the reform of the early retirement scheme in 1998 has probably played a role in the recent loss of power. The dilemma for the Social Democrats seems to be how to govern the economy effectively, which the electorate undoubtedly expects, without damaging the parties' pro-welfare state image.

A further question relates to the permanence of the transformation of the parties in the two countries. The implication of our analysis is that the parties are likely to abandon the 'third way' if it is rational to do so from a vote- and office-seeking perspective. Before the Dutch elections of 2002, it was hard to see that a government without the PvdA could be formed so long as the party stayed on the 'third way' course. This is because it promised to establish the party as the pivot of the coalition game, between, on the one hand, the Conservative Liberals and, on the other, the smaller left-wing parties and the Christian Democrats. Both the new declaration of Social Democratic principles and the new election manifesto thus underpinned the Dutch 'third way'. The extraordinary events during the election (the murder of Pim Fortuyn and the electoral defeat), however, have made the continuation of this course uncertain. In the Danish case, the recent loss

of power may cause the party to move away from the 'third way' line. The rational opposition strategy in terms of office-seeking may again be to attack a non-socialist government for being on an ideological crusade against the welfare state. Well aware of this, the new Conservative–Liberal government has followed a pro-welfare state line, but if it finds it necessary to introduce welfare state retrenchment, it can expect tough Social Democratic opposition. The Social Democrats are likely to oppose the same kind of measures as they themselves have introduced in the 1990s. A further challenge is of course how to handle the issue of refugees and asylum-seekers. A hope for the party is that it will be less dominant on the political agenda in the future. But the rise of a populist right-wing party in The Netherlands indicates that this hope is likely to be an idle one.

Notes

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- 1 During the first year after the 1973 election, a liberal minority government ruled.
- 2 This section draws on van Kersbergen (1999).

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