

Models in Motion: The Shifting Politics of Economic Reform in France and Germany

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Abstract: This paper explores recent changes in the political dynamics of reform in France and Germany. Since the late 1980s, the politics of economic reform have shifted significantly in the two countries, as new models of policy making have replaced the traditionally understood patterns of French statism and German neocorporatism. As the economic climate of the advanced industrial world soured in the 1970s and 1980s, the incentives facing both government officials and producer groups began to change significantly. As a result, the political dynamics of policy making and reform have evolved, even in the presence of relative formal institutional stability. The paper identifies new patterns of politics in the two countries—“dueling interventionism” in France and “conflictual corporatism” in Germany. It explores these shifts in political bargaining in the context of recent episodes of reform in labor-market policy, an area that has witnessed a particularly high degree of change and innovation in the past decade. The paper concludes with an analysis of the insights that the French and German experience provide about the dynamics of policy making in advanced industrial societies in a climate of economic austerity.

During the past three decades, a series of daunting social, economic, and political challenges have confronted the countries of the advanced industrial world. Increased competition from less-developed countries with lower wage and cost structures, growing pressures on institutional and policy arrangements inherited from the post-war boom (in particular welfare states), and a climate of slowed growth and economic austerity have all confronted policy makers with the unenviable choice of adaptation or decline. No longer able to rely upon rapid economic growth and boundless markets, the United States and the countries of Western Europe, in particular, have been forced to make some painful choices—such as cutting or restructuring welfare benefits and finding new ways to govern while undertaking the politically dangerous task of imposing economic costs on large (and often politically powerful) segments of their populations. Despite (or perhaps because of) these challenges, and contrary to predictions of convergence on a single neoliberal model that were popular during the 1990s, nationally distinct models of capitalism have clearly endure and are likely to continue to do so. That said, these models have continued to adapt, as a climate of austerity and associated political pressures have led to the rethinking of many policy and institutional arrangements that had become established facets of the post-war order.

Even as the political economies of the advanced industrial world have continued to evolve, however, many of these changes have been largely neglected by many scholars of comparative politics, comparative political economy, and comparative social policy. Even as the objects of their study have continued to change, sometimes in ways that are quite significant and surprising, much prevailing scholarship has continued to assert, or at least to accept rather uncritically, the images of national models of capitalism that grew out of the 1960s and 1970s. During this period, a rich literature showed that the advanced industrial countries had each established distinctive so-called “national models” of capitalism, each with its own distinctive institutional frameworks and political and policy-making dynamics. A more recent literature has contended that the welfare states of these countries fall into set typological categories, each of which functions according to distinct

institutional logics and patterns of coverage, financing, and administration.¹ Though these portraits of “national models” or “varieties of capitalism”² and “worlds of welfare capitalism” nicely captured the structure and logic of the post-war world, they have failed to recognize the extent to which these systems have continued to adjust. Both the institutional structures and the political dynamics of the political economies and welfare states of the advanced countries have changed significantly since the heyday of the post-war boom, and though many scholars have detailed developments in specific policy areas, they have largely failed to engage in a broader questioning of the continued applicability of the typologies and national portraits that grew out of the post-war era.

Though the inertia of portraits of national welfare states and models of capitalism is characteristic of these literatures as wholes, the neglect has been more extensive with respect to some countries than others. While relatively few would argue that the United States has failed to change during the past three decades, for example, analyses of the political economies of Continental Europe have been dominated by images of stasis, even, in the case of France and Germany, coalescing into images of “frozen” political-economic landscapes. Even more than their Continental neighbors, France and Germany have been singled out as particularly maladaptive, as numerous scholars have emphasized both policies and patterns of politics that are said to impede reform and adjustment. As I have discussed elsewhere,³ these portraits of “frozen” French and German systems of welfare capitalism neglect a series of quite substantive recent reforms, which have altered many of the social and labor-market policies inherited from the post-war period. As in other countries in the advanced industrial world, change in France and Germany has not been limited to policy outcomes; rather, the very policy-making models that drive these changes, and to which many scholars point as the source

¹ The most prominent example of this literature remains Gøsta Esping-Andersen, *The Three Worlds of Welfare Capitalism* (Princeton, N.J.: Princeton University Press, 1990).

² For the seminal work on national models of capitalism, see Andrew Shonfield, *Modern Capitalism: The Changing Balance of Public and Private Power* (Oxford: Oxford University Press, 1965). The most prominent recent formulation of this approach is Peter A. Hall and David Soskice, eds., *Varieties of Capitalism: The Institutional Foundations of Comparative Advantage* (Oxford: Oxford University Press, 2001).

³ Mark I. Vail, “Beyond the Frozen Welfare State: Recasting Welfare Capitalism in Contemporary France and Germany” (Ph.D. diss., University of California, Berkeley, 2005).

of sclerosis, have likewise continued to adapt. Both policies and political institutions that constitute national models of welfare capitalism have shifted quite significantly, not only in countries like the United States that are known for their economic dynamism, but also in countries like France and Germany that have been dismissed as hopelessly sclerotic.⁴

This paper represents an effort to characterize and explain some of these changes and to redress some of the gaps and limitations in the literature on policy and institutional change in advanced political economies. It focuses on France and Germany, for two reasons. First, reforms in these countries during the past decade have been quite significant and reshaped the welfare state and the broader political economy in the face of extremely challenging economic circumstances. Second and more broadly, it focuses on France and Germany because identifying and explaining changes in countries that are seen as the worst examples of political-economic sclerosis provides compelling evidence for the need to rethink the prevailing, relatively static images of national models of welfare capitalism. If even France and Germany are changing in meaningful ways, we need to re-examine, not only prevailing images of these countries themselves, but also the basic premises of institutional stability and continuity that inform the wider literature on comparative political economy and comparative welfare states.

Though this paper is part of a wider research agenda dealing with the character and dynamics of political-economic change in advanced industrial democracies, I will focus here on the changes in the *political dynamics* of the two countries. France and Germany have both witnessed significant changes in the operating dynamics of their policy-making models during the past two decades, developments that prevailing scholarship on “statist” France and “neocorporatist” or “consensual” Germany have failed to incorporate. These changes are not only quite interesting and theoretically

⁴ For illustrative examples of this perspective on France and Germany, see Maurizio Ferrera and Martin Rhodes, “Recasting European Welfare States: An Introduction,” in *idem*, eds., *Recasting European Welfare States* (Portland, Ore.: Frank Cass, 2000); Fritz W. Scharpf and Vivien A. Schmidt, “Introduction,” in *idem*, eds., *Welfare and Work in the Open Economy*, vol. II, *Diverse Responses to Common Challenges* (Oxford: Oxford University Press, 2000), 11-13; and Gøsta Esping-Andersen, “After the Golden Age? Welfare State Dilemmas in a Global Economy,” in *idem*, ed., *Welfare States in Transition: National Adaptations in Global Economies* (London: Sage, 1996).

significant in and of themselves; they also reflect significant alterations in the very arrangements that adherents of the “frozen” landscape identify as the sources of the two countries’ putative economic sclerosis. Identifying and explaining recent changes in the French and German policy-making models thus represents an important step towards dislodging the foundations of misleading images of “frozen” French and German political economies, as well as towards reconceptualizing the relationship between institutional structure and the dynamics of politics and policy making in advanced industrial countries.

The paper begins with a brief review of the literature on national models of policy making, both in general and with respect to France and Germany in particular. It places particular emphasis upon claims, both explicit and implicit, about the relationship between institutional structure and political dynamics. It also briefly discusses some much more recent literature that has begun to provide, in much the same spirit that this paper is written, useful correctives to these received wisdoms. It then explores recent changes in the operation of the French and German policy-making models in the context of recent battles over social-policy and labor-market reforms, conflicts that have brought these political and institutional changes to the fore. It ends with a brief conclusion that revisits the evidence and relates it to some broader, more theoretical claims about institutional change and how shifting economic context alters the dynamics of national models of policy making.

FIXED LENSES AND MOVING TARGETS: HISTORICAL INSTITUTIONALISM THE EVOLUTION OF POST-WAR EUROPEAN MODELS OF POLICY MAKING

The first three post-war decades witnessed profound changes in both the political economies of the advanced industrial world and scholarly approaches to understanding how they operated. Contrary to early, more pessimistic predictions of decades of European economic struggle, Europe in the 1950s and 1960s witnessed perhaps the most remarkable economic expansion in the history of the West, generating full or nearly-full employment, robust and steady economic growth, and, at least in most countries, modest inflation. Western Europe in 1965 would have been completely

unrecognizable to an observer from the immediate aftermath of the war; the entire region had completely rebuilt its devastated physical and economic infrastructure and established stable, responsive democracies, leaving far behind the discredited political and economic models of the interwar period.⁵ Nor was the economic and political rebirth of Europe merely the product of happenstance or support from the United States; rather, the countries of Western Europe devised and implemented novel political-economic institutions through which to promote economic growth and manage the social and economic dislocation that it created. The revamped political economies of the region each allowed each country to write its own unique success story even as it contributed to the overarching narrative of prosperity on the continent as a whole.

Beginning with Andrew Shonfield's masterful *Modern Capitalism*, a new tradition of scholarship both recognized the stunning turnaround that Europe had undergone and emphasized the variation among national responses to shared challenges in the post-war period.⁶ To be sure, there were shared elements among national institutional and policy responses to the imperatives of growth and reconstruction—a faith in Keynesian demand management, a quest for full employment through active public policy, the expansion and reconstitution of the welfare state, and the shift from an agrarian to an industrial social and economic order. That said, the institutions and policy-making systems as well as the content of policies through which each country pursued these aims remained nationally distinct. These “national models” of capitalism represented distinct admixtures of tradition and novelty, and, as Shonfield and others recognized, the source of the variation in dynamics of the

⁵ A brief statistical snapshot provides a clear picture of how remarkable these transformations had been. Between 1961 and 1973, annual GDP growth rates averaged 5.6% in France and 4.5% in Germany. In 1970, unemployment was 2.5% and 0.6% in France and Germany, respectively. See Andrea Boltho, “Growth,” in *idem*, ed., *The European Economy: Growth and Crisis* (Oxford: Oxford University Press, 1982), 34; and Fritz W. Scharpf and Vivien A. Schmidt, eds., *Welfare and Work in the Open Economy*, vol. I, *From Vulnerability to Competitiveness* (Oxford: Oxford University Press, 2000), 341.

⁶ See, e.g., Peter A. Hall, *Governing the Economy: The Politics of State Intervention in Britain and France* (Oxford: Oxford University Press, 1986); John Zysman, *Governments, Markets, and Growth: Financial Systems and the Politics of Industrial Change* (Ithaca, N.Y.: Cornell University Press, 1983); Peter Katzenstein, *Between Power and Plenty* (Madison, Wis.: University of Wisconsin Press, 1978); and John H. Goldthorpe, ed., *Order and Conflict in Contemporary Capitalism* (Oxford: Oxford University Press, 1985).

policy-making processes that drove Europe's economic recovery was to be found in differences in the structure of national political-economic institutions.

This scholarly emphasis on the “fit” between the dynamics of policy making and the structure of national institutional frameworks both joined and helped give rise to what came to be known as the “historical institutional” tradition in comparative political economy.⁷ A key insight of this tradition was that the national institutional structures created after World War II yielded specific kinds of opportunities and constraints, which in turn yielded certain kinds of policy-making dynamics and policy outcomes. In a formulation that nicely expresses the essence of this perspective, John Zysman argues that “national institutional structure shapes the dynamics of the political economy and sets boundaries within which government policies and corporate strategies are chosen. . . . Predictable patterns of policy and strategy emerge.”⁸ Policy making in each country, in other words, represented institutionally grounded variations on the theme of a heightened degree of responsibility on the part of national élites for their country's social and economic fate.

This incipient literature on “national models” of capitalism nicely captured the national variation across the political-economic landscape of mid-1960s Europe. In France, for example, the concentration of political authority in certain government agencies, and in particular the *Commissariat Général du Plan* and, later, the Ministry of Finance, created a policy-making model dominated by the central state and in which other actors, notably trade unions and small business, had little to no real influence over policy.⁹ In Germany, by contrast, the division of authority among the federal and *Länder* governments, on the one hand, and among the state, unions, and employers, on the other, informed a model characterized by broad political consensus and incremental adjustment, and a

⁷ Classic applications of this approach can be found in Sven Steinmo, Kathleen Thelen, and Frank Longstreth, eds., *Structuring Politics: Historical Institutionalism in Comparative Analysis* (Cambridge: Cambridge University Press, 1992). For a more recent discussion of the predicates and methods of this analytical tradition, see James Mahoney and Dietrich Reuschemeyer, eds., *Comparative Historical Analysis in the Social Sciences* (Cambridge: Cambridge University Press, 2003).

⁸ John Zysman, “How Institutions Create Historically Rooted Trajectories of Growth,” *Industrial and Corporate Change* 3, no. 1 (1994), 279.

⁹ See Hall, *Governing the Economy*; and Jonah D. Levy, *Tocqueville's Revenge: State, Society, and Economy in Contemporary France* (Cambridge, Mass.: Cambridge University Press, 1999).

circumscribed role for the central state.¹⁰ Rather than running the economy from the commanding heights, as in France, the German state was, at best, a “first among equals” in a political system marked by decentralized authority. As a result, it was forced to hammer out compromises among a range of producer groups and political interests. If the institutional concentration of authority produced a French system dominated by a small élite and the central state, its diffusion in Germany underpinned a framework in which the state proposed more than it disposed. Using the early work of Shonfield and others as its points of departure, later scholarship contributed to what would become enduring images of “statist” France and “consensual,” or “gradualist,” or “neocorporatist” Germany. Institutional structure and policy-making dynamics were assumed to fit hand in glove, and the basic premise underlying these typologies—that the institutional distribution of authority yielded stable patterns of policy making—was rarely questioned.

If these images aptly captured the realities of 1965, the dramatic changes that the advanced industrial world experienced in the 1970s and 1980s yielded a growing discrepancy between image and reality. During these two decades, economic growth slowed, levels of unemployment rose, and fiscal pressures on the state became increasingly intense. According to a logic that echoes Paul Pierson’s insights into the distinctive politics of welfare reform,¹¹ this alteration in the prevailing economic climate led to a shift in the incentives of both state actors and the organized interests with whom they had to contend. As opposed to the heyday of the postwar boom, when their interests lay in primarily in securing political support and social consensus for rapid economic growth, policy makers’ top priority became adopting reforms that would both boost economic performance and allow them to portray themselves as responsible stewards of troubled economies, even as they sought to avoid the political recrimination that inevitably accompanied reform. The difficult economic

¹⁰ The classic statement of the post-war German policy-making model remains Peter J. Katzenstein, *Policy and Politics in West Germany: The Growth of a Semisovereign State* (Philadelphia: Temple University Press, 1987).

¹¹ Paul Pierson, “The New Politics of the Welfare State,” *World Politics* 48, no. 2 (1996): 143-179; and *Dismantling the Welfare State? Reagan, Thatcher, and the Politics of Retrenchment* (Cambridge: Cambridge University Press, 1994).

circumstances of the time likewise altered the incentives and goals of unions and employers, who represented the major producer groups and formidable political constituencies. Whereas the priority of both unions and employers during the post-war boom had been to secure as large a piece of the expanding economic pie as possible, during the post-1970 economic slowdown, their major goal became protecting their past economic gains, and, to the extent possible, avoiding bearing the brunt of the cost of reform. In short, if by the 1980s policy makers had become caught between the rock of economic management and the hard place of reform, the social partners had begun to dig in their heels in order to defend themselves against the feared predations of a reformist state in troubled economic times.

Over time, these shifts in the key incentives facing political actors led to concomitant changes in the dynamics of national models of policy making across the industrialized world. In France, where policy making had been long been dominated by the state, and where unions and employers' associations had been largely marginalized, the social partners began to exert a greater degree of influence, by both blocking reforms devised by the government and playing a larger role in setting the reform agenda and shaping the content of policies that actually were adopted. This increased political salience for unions and employers eroded some of the traditional dominance enjoyed by the state, which remained a key player but no longer occupied the political arena alone. In Germany, likewise, the "neocorporatist" bargaining pattern and the gradual, consensual political pattern that it engendered began to erode, as it became increasingly evident that the social partners were either incapable or unwilling to adopt needed reforms. In response to widespread political recrimination and demands that policy makers restore economic growth and reduce unemployment, the state gradually assumed a greater role in the policy-making process and found ways either to bypass or manipulate existing, unresponsive neocorporatist bargaining structures. No longer the "semi-sovereign state" that Peter

Katzenstein had identified in the 1980s,¹² the German state began to punch its weight and to exert a greater degree of influence over both the reform agenda and the character of policy outcomes.

Perhaps the greatest analytical contribution of the post-war literature on national models of capitalism was its identification of the relationship between the structure of national political institutional frameworks and the dynamics of national patterns of policy making. During the post-war period, scholars such as Shonfield demonstrated that, at least over periods of time marked by similar economic contexts, distinct national distributions of political authority yielded regularized, predictable patterns of politics. The posited relationship between institutional structure and policy-making dynamics, however, failed to account for the possibility that changing economic circumstances would alter these dynamics by shifting incentives and constraints on the part of key political actors. As the 1970s wore on, numerous scholars catalogued the effects of the degrading economic environment on wages, inflation, employment, and host of other indicators of economic performance.¹³ The insights of this literature, however, were never fully incorporated into the scholarship on national models of policy making, which continued to convey images of models relatively unchanged since the post-war boom. This failure to capture shifts in national patterns of policy making was in a sense a product of the centrality in this scholarship of the idea that institutional structure and policy-making dynamics were closely connected. Although this observation shed significant light on policy making during the post war boom, it also created a sort of intellectual inertia that undermined the literature's ability to capture how the vastly different economic circumstances of the 1970s and 1980s had altered the *dynamics* of national models of policy making, even in the absence of significant changes in the formal institutional *structure* of the policy-making systems.

¹² Katzenstein, *Policy and Politics in West Germany*.

¹³ The 1970s witnessed a proliferation of work dealing with the mounting economic crisis of advanced countries and the related, posited "ungovernability" of late capitalism. One of the touchstone works in this tradition was Daniel Bell, *The Cultural Contradictions of Capitalism* (New York: Basic Books, 1976).

More recent reformulations of the national models literature have likewise failed to capture either the theoretical potential or the empirical reality of shifts in national policy-making dynamics in the wake of the post-1970s economic slowdown. The best-known example of this scholarship is the scholarship on “Varieties of Capitalism” literature inaugurated by Peter Hall and David Soskice, which has spawned one of the more vigorous recent debates among scholars of comparative politics and political economy.¹⁴ Hall and Soskice’s work demonstrates the resilience of distinct features of national capitalisms and identifies the sources of this stability in the strategies and relationships of firms and the supportive ensemble of national political-economic institutions within which they are embedded. Hall and Soskice define their project as creating “a new framework for understanding the institutional similarities and differences among the developed economies,” and as “a firm-centered political economy that regards companies as the crucial actors in a capitalist economy.” They establish two broad categories of national political economies: “Liberal Market Economies (LMEs),” such as the United States and Britain, in which “firms coordinate their activities primarily via hierarchies and competitive market arrangements,” and “Coordinated Market Economies (CMEs),” like Germany, where “firms depend more heavily on non-market relationships to coordinate their endeavors and to construct their core competencies.”¹⁵ Whereas the market is the central mechanism for coordinating adjustment in LMEs, institutions such as vocational training systems, banks, and cooperative unions and employers’ associations enable firms in CMEs to innovate incrementally, to develop mutually beneficial relationships, and to make fruitful investments in worker skills and systems of production.

Though this work has provided important insights into why distinct national forms of capitalism have endured, it neglects the capacity of the state to engineer reform and thus underemphasizes the dynamic and potentially transformative character of politics. As a result, it fails

¹⁴ For an excellent discussion of the limitations of “Varieties-of-Capitalism” literature as applied to the study of industrial relations, see Chris Howell, “Varieties of Capitalism: And Then There Was One?” *Comparative Politics* 36, no. 1 (2003): 103-124.

¹⁵ Peter A. Hall and David Soskice, “An Introduction to Varieties of Capitalism,” in *idem*, eds., *Varieties of Capitalism*, 1, 6, 8.

to recognize that many aspects of the political economies of advanced democracies have changed since the 1970s. For example, in Germany, which Hall and Soskice see as the prototypical CME, slow growth and high unemployment, coupled with associated political pressures on governments and the inaction of moribund neocorporatist bargaining frameworks, have led the state to assume a much more assertive role in the policy-making process. In France, likewise, shifting political incentives that derive from an austere economic environment have led to a shift from a policy-making model completely dominated by the state into one in which unions and employers' associations are playing a much more important part.¹⁶ In short, though important aspects of these models endure, the “statist” France and “gradualist, consensual” Germany of the world portrayed in the post-war scholarship on European political economies have clearly evolved into something more ambiguous and difficult to characterize.

The inertia of conceptions of French and German policy-making models has been reinforced by other work on the political dynamics of advanced industrial democracies, the most notable of which has been the literature on path-dependence. As expressed in a recent and well-known formulation by Pierson, the central contention of this body of scholarship is that, “Once established, patterns of political mobilization, the institutional ‘rules of the game,’ and even citizens’ basic ways of thinking about the political world will often generate self-reinforcing dynamics,” which make “reversals very difficult.”¹⁷ Though Pierson does not deal at any length with the question of national policy-making models in this work, the character of his argument expresses the tendency of comparative political economy as a whole to privilege continuity over change, thereby neglecting the shifting dynamics of political-economic institutions. For Pierson and those on whose work he draws, it is not only inherited institutions and policy arrangements that are resistant to change (a claim that

¹⁶ France poses a problem for Hall and Soskice, since it does not correspond clearly to the characteristics of either CMEs or LMEs. They note only that it represents a mixture of elements of CMEs and LMEs and “may constitute another type of capitalism.” *Ibid.*, 21-22.

¹⁷ Paul Pierson, *Politics in Time: History, Institutions, and Social Analysis* (Princeton, N.J.: Princeton University Press, 2004), 10. For an earlier and more concise treatment of Pierson’s argument and the literature from which it draws, see his “Increasing Returns, Path Dependence, and the Study of Politics,” *American Political Science Review* 94, no. 2 (June 2000): 251-267.

Pierson eloquently makes in his work on welfare retrenchment); the very dynamics according to which politics operates change very little, if at all, even in the face of sometimes radical shifts in the incentives facing key political actors. Pierson argues, “Combined with the weakness of competitive mechanisms and learning processes, as well as the short time horizons characteristic of politics, [the status quo] bias means that tendencies toward path dependence in political development are often particularly intense.”¹⁸ Despite Pierson’s recognition that formal institutional arrangements may change over time and his welcome plea for attention to the importance of “social context,”¹⁹ adherents of the “path-dependence” perspective often neglect the potential for subterranean shifts in the “rules of the game” under a surface of relative formal institutional stasis, or for how shifting social and economic context and political incentives actually produce such changes.

In beginning to address these questions, this paper will incorporate and extend the insights offered by two bodies of scholarship dealing with institutional change in advanced political economies. The first is the so-called “Regulation School,” which emphasizes the role of economic context in determining both the character of politics at a given historical juncture and the ensemble of institutions and practices that govern economic growth.²⁰ Though these scholars’ focus on the importance of economic circumstances is welcome, their contention that shifting economic context, or “modes of regulation,” accompany political changes tends to revert to functionalism by failing to address the actual mechanisms through which such changes take place. The paper also builds on the emerging literature on institutional change in advanced industrial societies, developed in the work of Thelen, Streeck, Hacker, and others, which marks an important departure from the relatively static character of the historical-institutionalist literature.²¹ Whereas this work focuses primarily on formal

¹⁸ Pierson, *Politics in Time*, 43-44.

¹⁹ See *Ibid.*, 153-172 for a discussion.

²⁰ For concise presentations of the core insights of this body of work, see Robert Boyer, *La théorie de la régulation: Une analyse critique* (Paris: La découverte, 1986); and Chris Howell, *Regulating Labor: The State and Industrial Relations Reform in Postwar France* (Princeton, N.J.: Princeton University Press, 1992), ch. 1.

²¹ See Kathleen Thelen, *How Institutions Evolve: The Political Economy of Skills in Germany, Britain, the United States, and Japan* (Cambridge: Cambridge University Press, 2004); and Wolfgang Streeck and Kathleen

policies and institutions, however, this paper explores changes in the political *dynamics* rooted in existing political institutions, often (though not always) in the absence of formal institutional change. I argue that political practices are clearly shaped by existing formal institutional arrangements and the distributions of authority that they represent, but also that the effect of these arrangements on politics will change as economic context and related political incentives evolve.

The remainder of this paper uses this approach to explain recent shifts in the dynamics of the French and German policy-making models. It does so through an analysis of recent episodes in labor-market policy, which is one of the most salient arenas of contemporary political debate in Continental Europe. Elsewhere, I have explored similar changes in political dynamics in other areas of social and economic policy, but space constraints preclude a full-blown comparison across policy domains here.²² The paper ends with a brief conclusion, where I explore the implications of the discussion for our broader understanding of the politics of economic adjustment in advanced industrial democracies.

THE DECLINE OF STATISM AND THE EMERGENCE OF “DUELING INTERVENTIONISM” IN FRENCH LABOR-MARKET POLICY MAKING

Since the early 1990s, labor-market reform has lain at the center of French political debates. As the economic climate soured in the 1970s and 1980s, unemployment rates soared, reaching over 12% in the mid-1990s. Once thought to be “ungovernable” if the number of unemployed exceeded a million, France in 2000 confronted a situation in which 2.5 million people were out of work and growth rates under 2% held out little hope for a significant absorption of the jobless. The phenomenon of mass unemployment was thus not merely a concern for economists; it had become a volatile political issue, prompting nearly every President and Prime Minister since the early 1990s to promise to tackle the problem. Over time, the increasingly evident gap between these promises and actual labor-market outcomes resulted in a complete discrediting of the statist system of labor-market

Thelen, eds., *Beyond Continuity: Institutional Change in Advanced Political Economies* (Oxford: Oxford University Press, 2005).

²² Vail, “Beyond the Frozen Welfare State.”

regulation that had worked relatively well during the post-war boom. To be sure, the state was not standing idly by as jobless rates skyrocketed. Amidst calls to “do something” about unemployment, a series of French governments has adopted a host of active labor-market policies designed to reinvigorate the labor market. By the end of the 1990s, however, the apparent imperviousness of unemployment rates to such efforts gave the impression of a labor-market strategy of running to stand still or of Sisyphus endlessly pushing a stone up the hill.

The state’s apparent failure successfully to address France’s most important economic-policy problem gave rise to a period of change in the statist model of labor-market policy that had prevailed since the late 1940s. During the post-war boom, rapid and consistent economic growth meant that state officials could focus on pursuing the economic modernization without much concern about unemployment. Accordingly, labor-market policy did not really exist as an area of policy concern independent of industrial policy and macroeconomic management; rather, high rates of employment were a happy byproduct of activist industrial policy and the rapid growth that it helped to support. Under this system, unions and employers, who shared responsibility for administering a range of labor-market programs, including unemployment insurance, remained subordinate to state initiatives, and their role within the process of labor-market policy making remained marginal. As the heyday of the post-war boom came to an end in the 1970s and 1980s, however, the combination of rising unemployment and ineffective state responses to it gradually discredited the statist model of economic management while opening up space for other political actors to play a more important role in the policy-making process and in shaping the reform agenda.

By the late 1990s, the statist model of labor-market policy making had begun to give way to what I call a model of *dueling interventionism*, in which the state remained an important player and driver of reform but increasingly had to compete with the social partners in both setting the reform agenda and shaping policy outcomes. The evolution of the French policy making model was not limited to labor-market policy; it also characterized the political dynamics of a number of other policy domains, from pensions, to health care, to immigration policy, to taxation. That said, the shift away

from statism and towards dueling interventionism has been more dramatic in labor-market policy than in other areas, largely because unemployment has become such a dominant political issue and because the social partners have an institutional platform from which to exercise influence over it in the form of their administrative responsibilities over many of France's social-security funds.²³

Stubbornly high rates of unemployment have not only discredited the statist model, they have also shifted the political incentives confronting both the state and social partners. Political pressure on the state to address unemployment has forced governments to seek out allies among France's producer groups, particularly among employers, whose cooperation is required if unemployment is to be reduced, since no legislative fiat can force them to hire. For employers, the tarnishing of the state's image as a responsible economic steward has created an opportunity to push an agenda of labor-market liberalization and to exert a significant influence over the direction of policy making. Among moderate, reformist unions such as the CFDT, the priority has shifted from protecting benefits to reducing unemployment, in order both to increase their potential membership and to improve the job security of their existing rank and file.

These altered political incentives arising from the shift in economic context have given rise to a new reform coalition among employers, moderate trade unions, and many state officials, particularly under governments of the right, all of whom have made reducing unemployment a top policy priority. This does not mean, however, that these political actors agree on much of the substance of policy. Indeed, the core of the emerging dueling interventionist model is often intense competition among these actors to control the reform agenda and shape the content of reform. But though they disagree over the details and even much of the substance of policy change, they agree that reform is necessary and are willing to consider policy proposals, such as reductions in the generosity of unemployment benefits, that would not have been politically viable two decades ago.

²³ Bruno Palier stresses this source of the political relevance of the social partners. See his "'Defrosting' the French Welfare State," *West European Politics* 23, no. 2 (April 2000): 113-136; and *Gouverner la sécurité sociale: Les réformes du système français de protection sociale depuis 1945* (Paris: Presses universitaires de France, 2002).

The emergence of this new model of labor-market policy making became clear in the late 1990s, when MEDEF, or the main French employers' organization, launched their so-called *Refondation Sociale*, or "Social Refoundation" campaign, which involved promoting a series of liberalizing reforms in the areas of unemployment insurance, vocational training, health insurance, and pensions. In addition to influencing public debates and reform outcomes, the campaign also reflected MEDEF's attempt to combat what employers (as well as unions) viewed as the government's excessive intrusion into labor-market policy making, which MEDEF argued was the purview of the social partners. In the words of Ernest-Antoine Seillière, MEDEF's president at the time, "Of course, the state has social responsibilities, but that does not mean that it should carry them out in an authoritarian way, with sole regard to its own initiative."²⁴ For Denis Kessler, the intellectual father of the *Refondation* and MEDEF's *éminence grise*, the campaign was not only about countermanding the government's ostensibly illiberal impulses. More importantly, it was about a "quest for rules" governing social dialogue and a clarification of the respective responsibilities of the state and social partners.²⁵ The *Refondation* represented both an effort on the part of employers to assert political influence and an indictment of dysfunctions in France's system of social partnership, which had long been marked by state dominance, ideological and politically marginalized trade unions, and relatively passive employers' associations. The battle over labor-market reform, like those over other areas of social protection, was thus not merely a fight over policy content, it was also a fight over the respective political legitimacy of the government and the social partners and their relative weight in the policy-making process.

In 2000, a debate over unemployment insurance reform took place against the background of growing acrimony between MEDEF and the government. Even as employers complained about the government's "Jacobinism" and "authoritarianism," Prime Minister Jospin pleaded with the public

²⁴ Ernest-Antoine Seillière, "Indispensable et fragile refondation sociale," *Le Monde*, 6 December 2000, 16.

²⁵ Interview, 15 May 2002.

not to “expect everything from the state.”²⁶ This formulation attested to increasing public pressure on the state to address a labor-market situation that had assumed crisis proportions. Despite the relative prosperity of the late 1990s, unemployment remained at a stubbornly high 9% in September 2001, providing evidence that the government’s labor-market measures were having limited effects. Nonetheless, the government continued to claim that the full employment on which it had campaigned before the 1997 elections was a real possibility, although it would require stepped-up, coordinated demand- and supply-side economic and labor-market policies.

In June 2000, MEDEF and the reformist trade union CFDT struck a bargain that limited access to benefits and imposed significant new obligations upon job seekers. The resulting *Plan d’aide et de retour à l’emploi* (PARE) ended benefit degressivity but made receipt of benefits contingent upon a signed contract obligating job seekers to work closely with the ANPE, or national employment office, in a personalized job-search (the *Projet d’action personnalisé*, or PAP). If this contract were judged to have been abrogated, benefits could be cut or even terminated. Because the management of France’s unemployment insurance system is bi- rather than tri-partite, the social partners were able to negotiate the original deal relatively independently of direct state interference. Following the conclusion of union-employer negotiations, however, the government refused to ratify the agreement, arguing that the measure insufficiently extended coverage and that, in any event, defining rights to benefits was the state’s sole prerogative.

The government’s objections, however, were more jurisdictional than substantive, since Labor Minister Martine Aubry and her closest advisors supported the basic policy direction represented by the deal. After more negotiations and several iterations of the reform, the conflict between MEDEF and the government was finally resolved by a phone call from Jospin to Seillière at midnight on a Sunday in an effort to defuse the conflict between Aubry and the employers’ association. Jospin felt compelled to intervene in order to secure a reform that all sides (with the

²⁶ This famous statement was made in the context of an interview on national television about the effects of and potential government reaction to Michelin’s announcement of major layoffs and submission of a *plan social* to the government. For a discussion, see *Le Monde*, 15 September 1999.

predictable exceptions of the CGT and FO, France's more radical trade unions) agreed was necessary²⁷ and to preserve the government's credibility as a force for reform in the face of MEDEF's apparent hijacking of the agenda. Equally important, the government wished to prevent MEDEF's departure from the administration of France's social-security funds, which the association had repeatedly threatened if legislative outcomes did not hew fairly closely to its priorities. Keeping MEDEF within the system was important, not only in order to maintain a functioning system labor-market and social-policy administration, but also to preserve the legitimacy of the entire social-security system, whose bi-partite structure had long been an important source of public support.

Since 2002, the center-Right successor of the Jospin administration under Jean-Pierre Raffarin and the current government of Dominique de Villepin have continued the pattern of competition with the social partners over the direction of labor-market reform, suggesting that the pattern of dueling interventionism is becoming a lasting feature of the French political landscape rather than an episodic variation. Raffarin's government, for example, pushed through liberalization of the previous administration's laws creating a 35-hour week, though the government's role in the debate was often overshadowed by employers, who wanted more extensive liberalization and some of whom wanted the measures scrapped altogether.²⁸ Frustrated by the government's lack of progress in reducing youth unemployment, MEDEF launched an aggressive public campaign designed to compel the government to address the issue. At the same time, it initiated negotiations with unions over reforms of the vocational-training system, on which many blame the high rate of joblessness among those under 25. In the area of pensions, the government pushed through a reform of the public-sector

²⁷ This account is confirmed by accounts on all sides of the debate, from MEDEF, to UNEDIC, to members of the government. My account of debates and negotiations over reforms of French unemployment insurance is based upon interviews with the following: Dominique Chertier, Directeur Général, UNEDIC, 19 November 2001; Bernard Boisson, Conseiller Social, MEDEF, 24 October 2001; and Jean-François Chadelat, Inspecteur Général, Inspection Générale des Affaires Sociales, 3 October 2001.

²⁸ The 35-hour laws were adopted under the Leftist government of Prime Minister Lionel Jospin with the leadership of Labor Minister Martine Aubry. Although employers howled in protest when the laws were pushed through in 1998 and 2000, their objections centered on the government's impositional approach to reform rather than the substance of the laws themselves. In fact, given the generous subsidies available to employers in the form of reimbursements of employers' payroll taxes, many privately supported keeping parts of the law in place. For a discussion, see Vail, "Beyond the Frozen Welfare State," ch. 5.

system in 2003 against the backdrop of negotiations between the social partners over future of private-sector complementary pensions. Conflicts between the state and social partners on a host of other reforms, including those of the health-insurance system and the rules for economically-motivated layoffs, dominated the end of the Raffarin administration.

Under the current center-Right administration of Prime Minister de Villepin, who took over in late May 2005, battles with unions and employers over control of the agenda for reforming the labor market and social-protection system have continued. The government's most controversial measure to date has been the so-called *Contrat Première Embauche*, or "Contract for First Hires," which significantly loosens the restrictions on small firms wishing to lay off workers under 26, in the hopes that doing so will encourage those same firms to take the economic risk of hiring them in the first place. Unions have fought the measure from its inception, but many employers, particularly representatives of SMEs, have signed on to it. At the same time, however, MEDEF has demanded that the government go further in liberalizing the labor market and has vehemently opposed some of the government's proposals, including those pertaining to vocational-training reform and efforts to provide additional support to workers laid off for economic reasons. Although the battles between the social partners and the recent governments of the center-Right have not been as intense as those with their center-Left predecessor, the pattern of "dueling interventionism" has characterized debates over French labor-market reform under administrations of both Left and Right.

The emergence of this new pattern of politics and policy making marks a major departure from the traditional dynamics of French statism. Rather than merely responding to government proposals—either with support or hostility—as in the past, French unions and employers are themselves taking the initiative in a wide range of policy areas, working both to shape the content of policy outcomes and to influence the reform agenda and the character of political debate. As the economic context has shifted during the past two decades, unions and employers have been increasingly unwilling to leave the business of policy making to the policy makers and have fought aggressively to defend their economic and political interests by initiating policy proposals on their

own initiative. The statist system of labor-market and social-protection regulation has given way to a new model, in which the state still plays an important role but has to share the political stage with key producer groups.

Just as the statist French model has given way to a new variant, so, too, has the post-war German model of neocorporatist, negotiated, consensual politics. Since the mid-1990s, the German state has adopted a much more assertive posture with respect to the social partners, devising reforms with limited input from either unions or employers and at times completely bypassing existing corporatist organs of labor-market and social-policy administration and implementing reforms of its own devising. As in France, German politics in recent years has been about much more than the content or character of specific reforms. Equally at stake is the implicit distribution of political authority and primacy in controlling the reform agenda. As Germany has struggled to confront an economic climate characterized by slow growth, high rates of unemployment, and mounting fiscal pressures on both social-security funds and the federal budget, the state has stepped in to push through reforms that the social partners have been either unwilling or unable to accomplish on their own. This conflict over authority has often broken out into acrimonious public debates, suggesting that the traditional pattern of consensual, gradualist adjustment is a vestige of the post-war boom.

WAKING THE SLEEPING GIANT: THE RISE OF THE GERMAN STATE AND THE EMERGENCE OF “CONFLICTUAL CORPORATISM”

Like its French statist counterpart, the German neocorporatist model was well suited to the post-war decades of economic prosperity. This system rested upon divided political authority, regular and substantive negotiations among governments, unions, and employers, and broad agreement between the state and social partners and between major political parties over major questions of policy. This system of shared political authority and responsibility was both supportive of and supported by the post-war climate of rapid growth, low to practically non-existent unemployment,

bounding tax revenues, and moderately but consistently rising wages.²⁹ Unions and employers played central roles in administering both labor-market policy and social-security funds, and governments regularly consulted both producer groups and opposition parties in devising important reforms and rarely pursued major policy initiatives over the objections of important political-economic actors. As a result, the reforms that were eventually adopted tended to be incremental in nature, both because agreement was sought from all key political stakeholders and because the climate of economic prosperity required little in the way of major shifts in policy. In this way, economic prosperity reinforced the consensual, gradualist tendencies that were based in an institutional framework characterized by decentralized authority and multiple veto points.

The advent of economic austerity in the 1970s and associated increases in unemployment and declines in rates of economic growth put significant pressures on this policy-making system, which started to change as early as the mid-1980s. The shock of German reunification, however, greatly accelerated these changes, as both policy makers and the social partners struggled to cope with the unprecedented, seismic disruption of the relatively cozy post-war political and economic consensus. As unemployment rates and deficits continued to rise, the public grew increasingly impatient with hesitation and inaction on the part of governments. For their part, no longer able to reap roughly equitable portions of a growing economic pie, unions and employers began to dig in their heels to protect their economic interests in the wake of economic decline. As Germany's economic problems worsened in the 1990s, the social partners' role changed from that of conservative stewards of healthy social-policy and labor-market arrangements into defenders of the status quo and obstacles to significant reform. Despite efforts by government to encourage the social partners to reform the policies and administration of the Federal Labor Office, or *Bundesanstalt für Arbeit* (BA), and to liberalize wage-setting procedures so as to promote the creation of new jobs, the social partners failed

²⁹ Katzenstein, *Policy and Politics in West Germany*. See also Shonfield, *Modern Capitalism*, chs. 9, 11, and 12; and Kathleen Thelen, *Union of Parts: Labor Politics in Postwar Germany* (Ithaca, N.Y.: Cornell University Press, 1991).

to undertake any meaningful initiatives to reform labor-market arrangements that most observers agreed had become deeply dysfunctional.³⁰

In the past decade, German governments have responded to this political impasse and mounting demands to address the country's economic woes by taking a much more aggressive role in formulating and implementing reforms. This shift in German policy-making dynamics, away from neocorporatist gradualism and towards a more impositional style marked by regular conflict with opposition parties and the social partners, was particularly evident under the recent Social Democratic administration of Chancellor Gerhard Schröder. Recognizing the failure of tripartite labor-market regulation, Schröder's government introduced a number of significant labor-market reforms, usually with limited input from the social partners or the political opposition. These reforms not only bypassed the regular channels of neocorporatist policy making, they reflected a structural shift in authority away from the social partners and towards the federal government in devising and implementing labor-market policy. Although the social partners have remained important political actors with significant authority over German labor-market administration, the state has begun to punch its political weight, becoming more of a leader of reform than a mere "first among equals."

The emergence of this pattern of "conflictual corporatism" began under CDU Chancellor Helmut Kohl but accelerated when Schröder took office in 1997. Having made the reduction of unemployment one of his central campaign promises and faced with increasingly dismal labor-market conditions, Schröder, along with the Labor Minister Walter Riester, launched a series of important policy initiatives. Soon after the election, Schröder gave rhetorical form to his government's new approach, combining an emphasis upon the activation of labor with rhetoric of the "rights and obligations" of the unemployed. This formulation intimated the government's strategy of assuming

³⁰ Perhaps the clearest example of this failure was the ill-fated *Bündnis für Arbeit*, or "Alliance for Jobs," which was a loose tripartite forum created by CDU Chancellor Helmut Kohl at the behest of the metalworkers' union *IG Metall* and then revived under Social Democratic Chancellor Gerhard Schröder after 1997. The forum was designed to facilitate discussion among the government, unions, and employers, with a view to reforming the labor market and creating jobs. Little if anything was accomplished by the organization, however, which tended to degenerate into a talking shop that the government could point to as evidence of the continued relevance of political "consensus." It was finally dissolved by Schröder in early 2003.

substantial authority from the BA, as well as its agenda of applying pressure to the jobless to accept available employment. In a significant departure from traditional German understandings of the relationship between social benefits and the labor market, Schröder declared, “Whoever is able to work but refuses an appropriate job should have his support cut. There is no right to laziness in our society!”³¹ For decades, unemployment insurance and job-placement services, for which employees furnish 50% of the financing, had been considered benefits previously paid for and therefore owed to workers as a matter of right. By contrast, both the rhetoric and the policies of the Schröder government suggested a new emphasis upon the centrality of state initiatives in addressing unemployment as well as making “rights” previously taken for granted conditional upon workers’ acceptance of new obligations.

One of the Schröder government’s keystone policy initiatives was the *JOB-AKTIV Gesetz*, or law for “Job-Activation, Qualification, Training, Investment, and Placement (*Vermitteln* in German).” This measure mandated the restructuring of the BA’s job-placement services and adopted an aggressive, contractual stance toward the unemployed in the hope of reducing the unemployment rolls and benefit expenditures. Regional and local branches of the BA were ordered to create a personalized profile for each job seeker, offering “appropriate” job openings and providing tailored advice and counseling services. In return, the unemployed person was obligated to accept “reasonable” job offers and to make a serious effort to find work, or else risk a suspension of benefits. The law also introduced new vocational-training programs, expanded subsidies to employers to encourage hiring by reducing non-wage labor costs (particularly those associated with training for younger workers), and instituted additional job-creation schemes aimed at improving public infrastructure.³² As the government worked to create what it sees as a *Leistungsgesellschaft*, or

³¹ Konstantin von Hammerstein and Michael Sauga, “Das System ist faul,” *Der Spiegel* 21, 21 May 2001, 96-97.

³² SPD und Bündnis 90/Die Grünen Bundestagsfraktionen, “Zur Reform der Arbeitsförderung: Eckpunkte der Fraktionen SPD und Bündnis 90/Die Grünen vom 3. Juli 2001 für ein Job-Aktivieren, Qualifizieren, Trainieren, Investieren, Vermitteln-Gesetz,” July 2001. See also Bundesanstalt für Arbeit, *2002 Annual Report* (Nürnberg: BA, 2003), *passim*.

“performance society,” it started to rethink the concept of the *soziale Marktwirtschaft*, working to develop the “market” without eviscerating the “social.”³³

The government’s strategy also entailed a concerted effort to confront the stubborn problem of youth unemployment, which reflects a long-run imbalance of labor supply and demand and the failure of the Social Market Economy to adapt to a changing economy and the emergence of a new occupational landscape.³⁴ The campaign against youth unemployment was also emblematic of the federal government’s efforts to move into the political space created by the failure and immobility of neocorporatist labor-market institutions. In 1998, the government passed the *Sofortprogramm zum Abbau der Jugendarbeitslosigkeit*, or “Immediate Program for the Reduction of Youth Unemployment” (referred to as “JUMP”). This law created a range of training and apprenticeship measures, introduced wage subsidies for firms that hire young workers from the unemployment rolls, instituted additional job-counseling services, devoting DM 2 billion (€1.02 billion) annually (DM 1.4 billion from tax revenues and social contributions and DM 600 million from the European Social Fund) to the goal of creating 100,000 new jobs for workers under 25.³⁵ Of the total DM 2 billion allocated in 2001, moreover, a full DM 1.2 billion (nearly 90% of the German government’s share) came from federal tax revenues. The federal government not only provided the bulk of funding for the measure, it was the principal authority responsible for its administration and implementation;

³³ Even among Germany’s more liberal élites, there is very little acceptance for mass privatization of the government’s social- and labor-market responsibilities. At the same time, understandings of the Social Market Economy vary in the degree to which the system’s market foundations or social components are emphasized. As one observer stressed to me, Erhard’s original conception assumed the existence of responsible social groups among whom political authority would be shared. Liberals’ call for a “Renewal of the Social Market Economy,” centering on a return to what they see as Erhard’s original vision, since corrupted by state dominance, thus would seem to rely upon the kind of social-mindedness on the part of the social partners whose absence has created the space for increased state intervention under recent governments. Interviews, Carl Graf Hohenthal, *Frankfurter Allgemeine Zeitung*, 13 October 2000; and Dr. Uwe Bentrup and Dr. Doerte Treuheit, Bundesministerium für Bildung und Forschung, 21 May 2001.

³⁴ Joblessness among workers under the age of 25 rose significantly in the 1990s, reaching a level of 10.4% in 1998, 476,000 youth being without either jobs or apprenticeship places. Furthermore, between 1991 and 1998, the number of young applicants registered with the BA for apprenticeship slots grew from 541,790 to 796,400, while the number of available positions decreased from 830,940 to 603,900. Bundesanstalt für Arbeit, “Ausbildung, Qualifizierung und Beschäftigung Jugendlicher,” Informationen für die Beratungs- und Vermittlungsdienste der Bundesanstalt für Arbeit, 2/99, 13 January 1999, 69, 72.

³⁵ The law was initially intended to last only twelve months but was extended each year by agreement between the BA and the government.

whereas the BA has traditionally administered such programs with almost total autonomy, JUMP is managed jointly by BA and the Labor Ministry.

The interventionist character of the *JOB-AQTIV Gesetz* and the law on youth unemployment parallels recent patterns of labor-market policy financing. In fiscal year 1999, the federal government (not counting contributions from the *Länder* and municipalities) financed more than 37% of the BA's budget (most of the rest came from employer and employee contributions).³⁶ In 1999, the government financed a full 29% (DM 43.6 billion, or €22.3 billion) of the total cost of DM 150.3 billion (€76 billion) for *all* labor-market policies, compared to €16.2 billion in 1995. Then, in 2001, the government further increased its share by providing the BA with an additional DM 1.2 billion (€614 million) to offset the costs of its JUMP reform. During the same period, the BA's outlays for *active* labor-market policies also rose substantially, with a record DM 44.1 billion (€22.5 billion) budgeted for 2001 despite a decline in the number of unemployed during the year. In 2002, the federal government supplied 29% of the BA's annual funding, more than a third of which was paid as a lump sum to cover the agency's deficit.³⁷ From 1998 to 2002, then, the federal government raised its already-high level of *overall* funding for the BA's labor-market policies, while the total share of funds devoted to *active* labor-market policies increased significantly relative to expenditures at the end of the Kohl administration in 1998 (from 34.6% to 43.6%).³⁸

Government intervention has not been limited to assuming a greater financing burden and introducing new policy instruments, as a range of labor-market regulations have also been modified. The most important of these concerns employees' right to part-time work. As of January 2001, employees could, without the approval of their employers, convert their full-time jobs into part-time

³⁶ Author's calculations from data in Bundesanstalt für Arbeit, *Annual Report 1999* (Nürnberg: BA, 2000), 93. 1995 figures taken from Uwe Blien, Ulrich Walwei, and Heinz Werner, *Labour Market Policy in Germany*, IAB Labour Market Research Topics, no. 49 (Nürnberg: BA, 2002), 6

³⁷ The federal government is required by law to cover the BA's deficit. Traditionally an exceptional measure for difficult years, this supplement had become an annual fixture by the early 2000s, due to the BA's continual shortfalls. 2002 figures drawn from Bundesanstalt für Arbeit, *2002 Annual Report*, 66.

³⁸ Bundesanstalt für Arbeit, *Haushaltsplan, Haushaltsjahr 2001* (Nürnberg: BA, 2001), 9.

ones.³⁹ While the potential efficacy of this law was questionable, as it favors the currently employed over new hires and is likely to give rise to numerous suits in labor courts, it clearly reflects the government's effort to reduce unemployment by increasing the elasticity of labor contracts, although by limiting rather than augmenting the discretion of employers.⁴⁰ While unions were pleased with the law's protection of social-security coverage of part-time workers, employers were outraged and campaigned aggressively against the reform. Companies from small firms to major industrial concerns objected, not so much to the promotion of part-time employment (the use of which has long been on the rise in Germany),⁴¹ but rather to the creation of a legal *right* to it and the intrusion by the state into the domain of wage contracts, which they perceived as a threat to the sacrosanct principle of *Tarifautonomie*, whereby unions and employers alone are responsible for wage setting. According to a leading figure in the main German employers' confederation, the BDA, the Schröder administration's intrusion in this area was typical of its "top-down" approach to policy making and represented a danger to longstanding German notions of social partnership.⁴²

The Schröder government also undertook a series of experimental policies designed to facilitate job creation. Inspired by the success of such a program in Denmark, Schröder's administration in August 2001 introduced a "job-rotation" measure, which involved the temporary replacement by the unemployed of existing workers, who were to use the time off to upgrade their skills through job-training or other continuing-education programs. The "vacationing" workers receive normal unemployment benefits during their training period. In addition to increasing existing workers' productivity, the program is designed to offer the long-term unemployed "renewed contact with the professional world." In return for their participation, employers receive state subsidies of between 50% and 100% of the total wage costs for each worker who takes part. Retrained employees

³⁹ OECD, *OECD Economic Surveys, 2000-2001: Germany* (Paris: OECD, 2001), 69-70. Firms with fewer than fifteen employees are exempt.

⁴⁰ Interview, Michael Dörmann, Bundesministerium für Arbeit und Sozialordnung, 23 November 2000.

⁴¹ In 1999, 19.5% of jobs were part-time, compared with 14.0% in 1991. See Bundesvereinigung der Deutschen Arbeitgeberverbände, *Geschäftsbericht 2000* (Berlin: BDA, October 2000), 16.

⁴² Interviews, Jutte Kemme, Assessorin, Abteilung Soziale Sicherung; and Dr. Volker Hansen, Stellvertreter der Abteilungsleiter, Abteilung Soziale Sicherung, 29 November 2000 and 25 May 2001.

who subsequently refuse jobs offering reasonable wages and with tasks corresponding to their newly acquired skills risk seeing their benefits reduced or even eliminated.

The state has also reformed the administrative structure of the BA, assuming greater authority within the nominally tripartite organization in response to a series of scandals in the organization. In 2002, it was discovered that the BA had falsified its placement record, with as many as 70% of cases incorrectly reported, a scandal which placed the ineffectiveness of neocorporatist labor-market regulation in stark relief. The scandal led to the resignation of BA President Bernhard Jagoda and began a period of major reforms of the BA's administration. In March 2002, the government created a three-person executive board appointed directly by the federal government to govern the BA. In the summer of that year, the government established the "Hartz Commission" to make further recommendations on labor-market reforms, partly taking responsibility for labor-market policy out of the hands of the BA and giving it to a select group of experts from government ministries, employers' associations, and unions. Although structurally tripartite, the Commission's recommendations were anything but. It called for greater state control of labor-market policy, increased state funding for active labor-market policies, the development of state-run, temporary job agencies to promote more flexible employment, and further reforms of the BA's placement and training services.⁴³

Between 2002 and 2005, Schröder's government stepped up its efforts to revitalize the labor market, including a series of reforms that continue along the lines of those of the Hartz Commission but went well beyond them. Under the banner "Agenda 2010," the administration introduced a comprehensive series of reforms which, in the arena of labor-market policy, aim to promote job-creation, reduce non-wage labor costs, and liberalize regulations on shop hours and economically-motivated layoffs. The reforms reduced the length of eligibility for primary unemployment insurance (*Arbeitslosengeld*) to twelve months for all workers, with the exception of those older than fifty-five,

⁴³ See Hartz Commission, "Moderne Dienstleistungen am Arbeitsmarkt: Vorschläge der Kommission zum Abbau der Arbeitslosigkeit und zur Umstrukturierung der Bundesanstalt für Arbeit," August 2002. The thin character of the Commission's tripartism could also be seen in the selection as its leader of Peter Hartz, the personnel director at Volkswagen, with which Schröder has long had business ties, rather than the creation of a board of co-equal union leaders and employers to direct its work.

who will enjoy eighteen months of eligibility. Unemployment-assistance benefits (*Arbeitslosenhilfe*), paid to workers whose eligibility for the more generous unemployment insurance had expired, were reduced to the level of *Sozialhilfe*, the basic German income-support program. The measures also liberalized protections against layoffs in Germany's smallest firms, loosened the country's notoriously strict shop-opening laws (with the social partners in a given sector limited to a passive veto authority), and significantly cut tax rates.⁴⁴ In short, Agenda 2010 imposed change in nearly every aspect of the German labor market, and did so with limited input from the social partners.⁴⁵

Although it is too soon to tell how the newly elected CDU-SPD "Grand Coalition" led by Chancellor Angela Merkel will respond to Germany's labor-market difficulties, it is clear that the administration's political credibility will depend in large part upon its handling of the unemployment issue. In all likelihood, the fact that the governing coalition includes both the CDU and the SPD will slow the process of reform, since both parties are likely to have different conceptions of the direction that reform should take and any resulting measures will probably represent the narrow middle ground between the parties' priorities. That said, it is possible that the inclusion of both major parties in the coalition will create needed support behind the kinds of ambitious liberalizing measures that Merkel and the CDU advocated during the 2005 election campaign. In either case, however, and to the extent that the government does pursue labor-market reform, it is likely to be based on the same impositional strategy that Schröder adopted with respect to the social partners. The enduring climate of economic austerity, which has been particularly severe since reunification in 1990, has shifted the incentives facing both German governments and key political actors, while discrediting the policy-making models inherited from the post war boom. In their place, new policy-making dynamics have emerged within the context of broad continuity in formal political and economic institutions.

⁴⁴ Many of the "Agenda 2010" reforms had been initially proposed by the Hartz Commission and later subsumed under the aegis of the broader legislative initiative, which included proposals for reform in other policy areas, such as health insurance and tax reform.

⁴⁵ They also sparked some of the most extensive public protests that Germany has seen since World War II. During the summer of 2004, tens of thousands of people in major German cities poured into the streets to protest the government's reforms. Public hostility to the measures was an important reason for the SPD's poor performance in the 2005 elections.

CONCLUSION: RETHINKING THE POLITICS OF ECONOMIC ADJUSTMENT IN ADVANCED INDUSTRIAL POLITICAL ECONOMIES

During the past decade and a half, the politics of reform and the dynamics of policy making have changed significantly in both France and Germany. As the two countries have struggled to confront an enduring climate of economic austerity, both the state and producer groups have adopted new political strategies. For government officials, the primary goal has become responding to political pressures to reduce unemployment and restart economic growth, while avoiding measures that are likely to alienate large segments of the electorate and jeopardize their hold on power. For unions and employers, whose primary concern during the 1950s and 1960s was securing as large a piece of the growing economic pie as possible, the chief objective has been shaping the policy agenda so as to protect the economic interests of their membership.

These changes in incentives have led to important changes in the dynamics of the political bargaining process in both countries, suggesting the need to rethink received wisdoms about the political dynamics of the French and German post-war models. Put simply, images of “statist” France and “neocorporatist” or “consensual” Germany, which have become articles of faith in the literatures on comparative political economy and European politics, no longer capture political reality. Though these categories provided apt descriptions of the policy-making dynamics during the post-war boom, their evolution in the face of economic austerity shows that many of the patterns that Shonfield and others identified in the 1960s were contextually specific rather than etched in formal institutional stone. Though the changes in French and German policy making that I have described here have been particularly evident in the area of labor market policy, they are not limited to this area; they also characterize changes in policy-making dynamics in a wide range of other social- and economic-policy domains, including pensions, health care, tax policy, and immigration. Accordingly, the changes in political dynamics described in this paper are not merely episodic, but reflect significant changes in the effective distribution of political authority in the two countries.

In a broader and theoretically more significant sense, these recent changes in French and German political dynamics suggest the need to rethink received wisdoms about the relationship between formal, institutional distributions of political authority and the dynamics of policy making in advanced industrial democracies. Historical-institutionalist scholarship has long maintained that nationally specific, institutionally based incentives and constraints powerfully govern the dynamics of national politics and policy making. In their well-known analysis of the historical-institutionalist tradition, for example, Thelen and Steinmo characterize its central concern as “political agency and political choice within institutional constraints.” The authors add that this frame of reference does not amount to a deterministic view of politics, according to which institutional structure dictates specific policy *outcomes*, nor does it exclude the possibility that “the very same institutions can produce different outcomes over time.”⁴⁶ Such caveats notwithstanding, most historical-institutionalist scholarship tends to privilege continuity over change by focusing on the relationship between institutional structure, which is characterized by significant inertia and continuity, and political dynamics. Although the insight that institutional regularities and formal distributions of political authority tend to reproduce distinct patterns of politics over time is critically important to understanding why national models of capitalism endure, it fails to provide the necessary tools for understanding how they evolve.

In this paper, I have argued that capturing such processes of change requires attention to how economic context filters the incentives and constraints presented by particular institutional frameworks and therefore alters the way in which the business of politics is conducted. By shifting both the *incentives* facing key political actors and their economic *interests*, such contextual changes affect how these actors will use the *capacities* that the existing institutional framework makes available to them. In order to understand how economic context affects national political dynamics, in other words, we must consider both the formal institutional structures of a country’s political

⁴⁶ Kathleen Thelen and Sven Steinmo, “Historical Institutionalism in Comparative Politics,” in Steinmo, Thelen, and Longstreth, eds., *Structuring Politics*, 12, 17.

economy and how these structures intersect with the incentives that a given economic situation creates. Though they do not explicitly discuss the kinds of political change that I have analyzed here, Wolfgang Streeck and Kathleen Thelen's recent work on institutional change provides a useful starting point for tackling such a task. In their view, "[C]entral properties of the developments currently underway in the advanced political economies are not being adequately theorized, not even fully recognized, in the most influential theoretical frameworks guiding research on political economy and the welfare state."⁴⁷ This paper represents an attempt partially to redress this limitation in the literature by exploring how altered economic context acts to reshape the dynamics of national policy-making models. Though formal institutions and constitutionally-based distributions of political authority powerfully influence such dynamics, they do not alone dictate them. Understanding institutional distributions of political power, in other words, is a necessary but insufficient step towards understanding the relationship between institutional form and political dynamics. In order to gain a richer understanding of this linkage, we must recognize both the unpredictability and contingent character of politics and the fact that both economic interests and the political strategies that they inform are contextually specific.

⁴⁷ Wolfgang Streeck and Kathleen Thelen, "Introduction: Institutional Change in Advanced Political Economy," in *idem*, eds., *Beyond Continuity*, 5.

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