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Draft Proposal
Communism, Mobilization and the Welfare State

(Note: this is a very rough, draft. It doesn't even have footnotes yet! I'll try to clean it up and put in my references in the next day or two. Sorry!)

The current economic crisis is giving scholarly debates on the welfare state a renewed salience. In Europe, the downturn has had especially significant ramifications for government social policies, as declining tax revenues and the increased costs associated with caring for newly unemployed workers (and their families) have resulted in the rapid expansion of fiscal deficits. For some Eurozone states, the deleterious effects of those developments have been exacerbated by their inability to improve the position of domestic producers through currency devaluation. In several countries, the outcome has been unsustainable levels of debt, an explosion in the interest rates charged by lenders, and the danger of future default. Subsequent plans to restore fiscal stability through expenditure cuts have threatened long-assumed welfare and public employment commitments – and, concomitantly, increased the potential for acute social and political conflicts: in Greece, austerity measures passed in early May as a condition of a European Union bailout loan engendered days of strikes, led by public sector employees facing job cuts. These actions sparked bouts of violence between protesters and police. In France, the Sarkozy government's attempts to reform the pension system led to widespread mobilization and contention in September and October. Elsewhere, union members have engaged in brief general strikes.

This recession follows a decade marked by complex and contradictory developments for European welfare states. During most of the 2000s, a sustained expansion of the global economy - along with cheap credit provided by international markets - permitted many European governments to sustain high levels of spending even while implementing tax cuts in a context of large-scale migration and ageing populations. Yet, at the same time, states across the continent initiated, perpetuated, or intensified efforts to reform social programs – tightening oversight over recipients, raising eligibility requirements, privatizing the actual provisioning of services, changing funding mechanisms to reduce the cost burden on employers, and the like. Simultaneously, the transformation of macroeconomic institutions, policies and conditions related to the welfare state, a process that began in the 1970s and 1980s, was extended: these years were marked, for example, by the weakening of centralized bargaining schemes in numerous European nation-states, and the expansion or introduction of active labor market policies across the region.

These developments offer a new testing ground for examining older frameworks commonly used to study the welfare state. In this paper I want to suggest that there is a gap in the existing social science literature on the welfare state, such that even the most robust models struggle to account for several of the key developments of recent years. The problem is that all of the major perspectives in the sociological literature on the welfare state failure to account for two interrelated factors: first, the divergent effects of national-specific histories of Communist versus social-democratic dominance of the labor movement and left during the post-WWII period; and second, the relative propensity of workers and other aggrieved groups to engage in mass, cross-sectoral, political mobilizations in order to achieve desired goals - an outcome significantly influenced by the specific, contradictory legacies bequeathed by the two core political currents that competed for hegemony over the West European left after the War. These variables, I will argue, help us to understand the increasingly divergent experiences of welfare state reform in France and Germany over the course of the past fifteen years: most importantly, these two traditional "coordinated market economies", with their Bismarckian welfare states, have been separated by the inability of would-be reformers in France to liberalize state labor market policies, and other parallel policy and institutional arenas of France's political economy. That failure was not the result of a lack of desire on the part of employers or state actors, but instead reflected the relative breadth and strength of oppositional mobilizations there.

Delineating the Contours of Welfare State Reform

Modern scholarship on the welfare state has been marked by disagreements about how to conceptualize the changes of recent decades. Many commentators, for example, downplay the extent of welfare state "retrenchment," and insist that much of the reform impetus been geared towards "recalibration." "One of the striking features of current comparative research on the welfare state," Paul Pierson has argued, "is the lack of consensus on outcomes" (Pearson 377). The absence of a shared understanding of precisely what constitutes the "welfare state," or how it should be measured, has contributed to concomitant conflicts regarding the factors responsible for geographic and temporal variation. Total social expenditures have continued to increase annually, though at a much slower rate beginning in the 1990s. Replacement rates for key benefits have decreased only slightly, while participation in public insurance schemes, including pensions and unemployment programs, has escalated. Thus, social scientists who focus on aggregate levels of social spending, benefit or replacement rates, and the size of eligibility pools, are more prone to conclude that West European welfare states have remained generally intact – or even that they have expanded. Accordingly, they seek to construct explanatory models that identify the basis for the welfare state's robustness.

Limiting the purview of analyses to these dependent variables can mask the extent of the changes introduced in the past few decades. The alteration of the welfare state in Western Europe has been a geographically and temporally uneven process, and many welfare states have largely avoided outright cuts. Yet, across the continent, social policies and benefits have been subjected to significant reforms. Often, these changes have had the shared effect of encouraging labor force participation and preventing exit from the market. Commonly, these reforms take the form of:

- An uneven but effectively universal turn towards means testing, which incentivizes reentrance into the labor market and potentially stigmatizes beneficiaries.
- Rule changes constricting eligibility, such as increases in the age floor or years of employment required for retirees to collect a full pension.
- The introduction or expansion of restrictions on beneficiaries, such as the requirements that the unemployed participate in retraining or job search programs, as well as other measures designed to encourage reinsertion into the labor market.
- An elevated role for the private sector in welfare provisioning, which extends market-based inequalities in the sphere of social welfare.
- Alterations in funding or payment structures that reduce costs on employers, often by shifting the funding burden to workers, making formerly defined social benefits partially variable, or incorporating previously autonomous social programs into government fiscal budgets.

These reforms to the welfare system have been matched by parallel changes in other institutions of West European political economies. Across the region, for example, labor markets have been made flexible through reductions in the regulations governing the choices made by firms; simultaneously, increasingly ubiquitous active labor market policies attempt to boost economic performance through measures and programs that constrain and shape the behavior or boost the human capital of the unemployed. Indeed, welfare reforms have played a key role in broader efforts at economic reorganization during the past few decades. For example, in many countries cuts in the benefit levels paid by social insurance programs and new rules governing beneficiaries have been central components of nascent or expanded active labor market policies – notably in the construction of the Dutch iteration of the "flexicurity" model. Other institutional and policy arenas of Western European political economies have also been subjected to far-reaching changes: thus, the period since the 1970s has seen the deregulation of financial markets, shifts in tax policies and collective bargaining regimes, as well as the dismantling of *dirigiste* mechanisms for state direction over the economy. Vis-à-vis Germany, Wolfgang Streeck has characterized these and similar developments as elements of a larger trend towards the "disorganization" of capitalism, affecting a "liberalization" of that country's political economy (if not coalescence on a "liberal" production or welfare regime model).

Streeck insists that social scientists take a "panoramic view" in the study of changing economic institutions: "By this," he writes, "I mean that in order to know what slow change in a given institution may indicate for its stability and continuity, the institution must be placed I the context of the developments of neighboring institutions in the same society over a long period" (Streeck 2009: 17). From that perspective, even seemingly minor reforms can have far-reaching implications for the welfare state and other institutions of a political economy. To give one relevant example: the Swedish welfare state has remained largely intact. It continues to provide relatively generous, universalistic, and egalitarian welfare benefits. Some of the cuts and rule changes introduced during the economic crisis of the early 1990s were later reversed when conditions improved. Today, even right-wing political parties, including not only the so-called "bourgeois parties," but also the far-right "Swedish Democrats", assert their commitment to the maintenance of the Swedish welfare state. Neither have other core institutions of Sweden's political economy been fully liberalized: for example, Thelen notes that the collapse of the previous system of business-labor peak bargaining in the

1980s did not result in the abandonment of centralized wage negotiations. Rather, the system of corporatist bargaining shifted to the industry and sector levels.

Nonetheless, even these limited innovations have altered the character of Sweden's political economy. As Jonus Pontusson and others have described, peak-level wage bargaining was essential to the famed "solidaristic" wages policy pursued by the ruling social-democrats (SAP) and their trade union allies (primarily the blue-collar union federation, the LO) in the era after WWII. The egalitarian wages strategy, in turn, was an irreplaceable component of the "Rehn-Meidner" model of economic development that gave Swedish capitalism its unique character during the post-War "Golden Age". The shift to industry and sector level bargaining prevents negotiations between the social partners from playing the same macroeconomic role as they had in the pre-reform period. This process of disorganization has contributed to the rapid growth in wage dispersion. Similarly, while welfare benefit levels have been reduced only slightly since the 1980s, the Swedish welfare state has nonetheless been substantively reformed - most importantly through measures centering on deregulation, decentralization, a turn towards means-testing, and an immense expansion of the private sector's role in service provisioning. Among the myriad outcomes resulting from these reforms are burgeoning welfare inequalities - as the wealthy have been able to opt out of public systems and use their greater resources to attract private service providers, while lower-income groups are increasingly underserved – along with an escalation of other forms of segmentation in the welfare system.

For social scientists working within the "Power Resources" school of welfare state scholarship (who themselves built on insights culled from an earlier generation of social-democratic theorists) the central relevance of the welfare state lies in its potential to provide workers with non-market access to their means of reproduction; by reducing workers' dependence on the market, social welfare could help to counteract the structural imbalance in the relative power of labor and capital, the result of employers' monopoly control over the means of production. One need not share their assumptions to note that the core axis of conflict regarding modern developments in the welfare state centers on the impact of reforms on various socio-economic actors positioning in the market. The process of welfare state reform over the last several decades in Western Europe has been temporally and geographically variegated, but the thrust of the resulting ensemble of changes been similar across much of the region: improvements in means-tested benefits has mitigated against a rise in poverty and limited the growth of social inequality. At the same time, however, the dynamics of reform were directed towards the resolution of intractable fiscal and macroeconomic difficulties through solutions that involved rollback in the restrictions on employers and engendered expanded participation in labor markets by workers. As a result while social inequality grew slowly, real compensation rates stagnated across Western Europe, falling ever-farther behind the rate of productivity since the middle of the 1970s, and the share of national income accruing to labor dropped.

(Note: here follows a review of some of the key literature on welfare state reform. If you don't want to read it all, you can move on to the next session.)

Theories of Variation in the Process of Reform: Path-Dependency, Power Resources, Varieties of Capitalism

Social scientists exploring changes in the welfare state usually cite a common set of deeper sociological developments to explain the long-term pressures engendering reform. Often, scholars will point to the declining performance of European economies from the beginning of the 1970s: among other effects, growing economic difficulties produced chronically elevated unemployment rates that fed into subsequent fiscal problems and drove a search for employment-boosting policy reforms. Even more prevalent in the scholarly literature on the welfare state are assertions regarding the allegedly determinant effects of a purported "post-industrial" turn. This process is generally held to involve changing employment patterns, centering on the collapse of traditional manufacturing sectors and their replacement by burgeoning service industries. Since the latter are more likely to be labor-intensive and inimical to productivity increases, their emergence created a dilemma for Western European states, which were forced to choose between poor employment performance, an explosion of low-paid labor, or an expensive growth in the public sector. Additionally, demographic trends, such as the rapid aging of the European population structure and the mass entrance of women into the labor force, exacerbated fiscal pressures on the welfare state.

These developments have resulted in, as Paul Pierson puts it, a "context of essentially permanent austerity" facing European welfare states. However, Pierson denies that such difficulties have led rapid or dramatic retrenchment measures; rather, rollback was usually accomplished through "more centrist…incrementalist responses" Once constructed, he claims, welfare states generate mechanisms of self-protection. For example, they garner substantial backing from populations who already benefit from their programs, or expect to do so in the future. Along with voters' "negativity bias" (their propensity to respond more vehemently to potential losses than potential gains), such popularity ensures that politicians will be hesitant to embark on attempts at retrenchment for fear of electoral backlash. As a result, welfare retrenchment is marked by efforts at "blame avoidance" rather than "credit taking." Concomitantly, welfare states have an "institutional stickiness," manifested, first, in the veto points common to most democratic polities, which increase the likelihood that contentious legislation will be blocked; and, second, in the path dependence characteristics of state institution, which – in numerous ways – increases the costs of reform, often beyond the limits of acceptability. Retrenchment thereby becomes not only implausible for policy-makers, but also less desirable. Cuts are more likely, he argues, when the effects of reform legislation can be hidden from voters.

Pierson's work represents a paradigmatic example of the type of path-dependent analyses common in modern scholarship the welfare state. Like him, many social scientists are concerned to gainsay any assertions of a general tendency towards rapid retrenchment, or a "race to the bottom" process of convergence around a liberal welfare state model. To explain variation in the process of retrenchment, observers of the welfare state commonly incorporate insights taken from two core schools of analysis that have dominated the literature since the 1990s: these are "Power Resources" approach and the "Varieties of Capitalism" (VofC) frameworks.

The "Power Resources" approach treats welfare state variation as the outcome of the "political class struggle" characterizing modern, capitalist societies. The key actors in the model are classes, as well as their organizations and political parties – most importantly, the working-class, its unions and the social-democratic parties that represent it in government. Indeed, the first iterations of the model tended to downplay or ignore the potential for other actors to implement or augment the welfare state. In an earlier work, for example, John Stephens argued "that the welfare state is a product of labour organization and political rule by labour parties" (Stephens 1979: 72). As such, welfare states are not simply concessions to subaltern populations within the bounds of capitalism, but "a first step towards socialism." Power resources theorists tend to be especially interested in Sweden, because, as Stephens says, in that country:

> The welfare state has been developed by a strongly organized and highly centralized trades union movement…in cooperation with a social-democratic government that remained in office for nearly 44 years…the welfare state is characterized by high levels of expenditure and progressive financing and thus represents a transformation of capitalism towards socialism. (Stephens 1979: 129).

Similarly, Walter Korpi's 1979 study of the Swedish experience treated variation in the welfare state as a reflection of the state of class organization and balance of class power: Sweden's robust welfare state, Korpi argued, reflected the superior position of workers in relation to capital, manifested in the successes of the Social-Democratic Labor Party (SAP) and Sweden's main union federation (LO), which had forced employers to accept pro-working class reforms. For Korpi, it was not strikes or mobilizations at the point of production that gave workers power. On the contrary, it was the low level of social conflict in Sweden from the 1930s onwards that signified labor's impressive development and organizational efficacy. The SAP's electoral victories supported by the efforts of the LO, allowed Swedish workers to transfer distributional conflicts with business from the workplace to the parliament (*Riksdag*). Via the mechanism of the democratic state, the labor movement could pursue its goals through reformist legislation, without recourse to disruptive and uncertain strike actions.

More recently, Gosta Esping-Andersen's seminal *Three Worlds of Welfare Capitalism* emphasized the importance of the welfare state as a potential mechanism for "de-commodification." "De-commodification," Esping-Andersen explains, "occurs when a service is rendered as a matter of right, and when a person can maintain a livelihood without reliance on the market" (Esping-Anderson: 22). He argues that, "for labor," de-commodification "has always been a priority," since it compensate for the structural weaknesses, vis-à-vis capital, that workers face as a result of the natural workings of the capitalism market:

> When workers are completely market-dependent, they are difficult to mobilize for solidaristic action. Since their resources mirror market inequalities, divisions emerge between 'ins' and 'outs', making labor movement formation difficult. De-commodification strengthens the worker and weakens the absolute authority of the employer. It is for exactly this reason that employers have always opposed de-commodification.

One implication of this claim is that extensively de-commodifying welfare states should be expected to build on themselves, because they help to forge more effective labor movements, which in turn will seek to maintain, entrench and extend provisions that facilitate "de-commodification."

Famously, Esping-Andersen identifies three different "welfare state regime" ideal-types, or "worlds" – Scandinavian, social-democratic regimes; continental European, conservative or Christian democratic regimes; and Anglo-Saxon, liberal regimes. Each regime type is constituted by clusters of interlinked policies: "To talk of a regime," he writes in *Three Worlds*, "is to denote the fact that in the relation between state and economy a complex of legal and organizational features are systematically interwoven" (Esping-Anderson, 2). He suggests that the specific regime-type that develops in a given country is primarily determined by cross-class political coalitions that existed during the period of the welfare state's construction, as well as the policy legacies bequeathed by governments of the past.

The development of each welfare state's unique structures and attributes engendered path-dependent dynamics - as future policy makers are forced to make choices in a context set by the events of the past - that further reinforced the differences between welfare-state regime types. The point is not simply that actors operating within different regime-types will respond to crises differently, but that they will experience crises resulting from the same underlying factors differently. For example, Esping-Andersen claims that the "post-industrial" transition creates difficulties that affect social-democratic and conservative welfare state regimes in vastly divergent ways: the progressive gender policies and universalistic orientations of the former group meant that they were more easily able to amalgamate women into the employment market without suffering a collapse in birth rates; the latter, in contradistinction, suffered gravely from a decline in fertility as women found work despite the state's outmoded family policies.

Thus, the "Power Resources" model suggests that the variation in the process of welfare state retrenchment should be shaped by the institutional legacy of previous welfare state configurations, but also by the nature of ruling political parties and relative strength of labor organizations. In recent years, the framework has been critiqued on a number of grounds; Paul Pierson writes that *The Three Worlds of Welfare Capitalism*

> Suggests an image of welfare states foisted on capitalists. The problem with this line of thinking is not that it takes capitalism too seriously, but that it fails to take capitalism seriously enough. These are, after all, economies where investment depends on the capacity of capitalists to turn profits, and where the need to induce investment therefore confers substantial political power. The question thus arises: how would programs seriously damaging to economic performance thrive so extensively for so long? (Pierson 379)

Pierson's point dovetails with the contention of "Varieties of Capitalism" theorists that the "Power Resources" approach is mistaken in its assumption that strong welfare states are antithetical to the interests of employers. Indeed, in recent years, Walter Korpi has engaged in a sustained argument with VofC theorists about whether capital can be favorable to an extensive welfare state or merely accedes to others' demands for social welfare.

The starting place for social scientists using the VOC framework is not classes, states, or political organizations, but firms. Such scholars argue that the imperatives of profit-making force firms to effectively coordinate a series of relationships, with both exogenous (business groups, suppliers, the state, etc.) and endogenous (employees) actors. The manner in which they do so is shaped by the institutional setting in which they operate – it is towards the functioning and relationships of firms in specific institutional settings that VofC theorists focus their attention. As Esping-Andersen does for the welfare state, the VofC model groups various states into ideal-typical categories, as divergent clusters of institutions coalesce into identifiably distinct "regimes." In contradistinction to the power-resources model, however, the core taxonomy of the VofC literature are not welfare state regime types, but "production regimes": in the VofC literature, national economies can be separated into "Liberal Market Economies" (LMEs), in which coordination is conducted largely via the market, and "Coordinated Market Economies" (CMEs), in which firms are more reliant on non-market relationships and mechanisms. Institutional complementarities tend to reinforce the distinctions between each of these ideal-types, as necessities of effective concomitant functioning create pressures favoring a "fit" between various institutions. Institutions set rules for those working within them, and at every turn, the VofC approach suggests, the institutional context shapes and constrains the choices and behaviors of firms, as well as other socio-economic or political actors.

The VOC literature considers social welfare as one of several set of institutions that tend to work in complementary fashion and collectively define a given political economy. Also included among these core institutions are an economy's industrial relations, corporate governance, inter-firm relations, intra-firm relations, educational system, and product market regulations (Hall and Gingerich: 2004). A constant theme in VOC-inspired work is that business is not always an intractable opponent of stronger labor organizations, regulations, social welfare programs, and the like. Firms working in a certain production regime, VofC scholars say, develop structures and strategies conducive to functioning in their institutional setting. Forced to navigate, in their daily operations, in institutional contexts that they usually have little or no ability to alter, firms learn use the institutions in which they are embedded to resolve co-ordination dilemmas – as a result they come to rely on those institutions. VofC theorists argue that a firm's attitude towards a given institution is largely shaped by that institution's impact on the requirements of co-ordination, not on cost or like considerations. In general, leading VofC theorists Peter Hall and David Soskice write, the most useful institutions for actors, including firms, are not necessarily the cheapest or least restrictive, but, rather, those that "reduce the uncertainty actors have about the behavior of others and allow them to make credible commitments to each other" (2000: 10).

The result is that even institutional configurations apparently antithetical to employers' interests can become Pareto-improving for firms that have forged structures and practices conducive to the utilization of those institutions for purposes of resolving coordination dilemmas. Firms can become dependent on such apparently unambiguous concessions to labor as collective bargaining requirements and co-determination laws providing for workers' participation in certain aspects of corporate decision-making. Trade unions and works councils can play an essential role in resolving coordination difficulties, VofC theorists say, for example, by facilitating job training and pre-empting shop-floor conflicts. Social expenditures, Isabela Mares argues, can increase workers' "reservation wage," permitting them to eschew employment in positions not adequate to their skill-set and making them more amenable to devoting time and resources learning firm-specific work skills. Welfare benefits can thereby encourage extensive employer investments in job training, a necessity in coordinated market economies.

For Hall and Soskice, the institutional context facing firms in CMEs mitigates against the potential for dramatic institutional liberalization. Institutional complementarities make the prospects for reforms that fundamentally transform the character of one set of institutions without a concomitant transition in others dim. The comparative institutional advantages accruing to firms in CMEs often outweigh the cost advantages of liberalization. Thus, firms in CMEs will not develop structures and practices matching those of LME employers (such as wide-ranging mobility driven by a desperate search for ever lower labor costs).

The VofC approach has been criticized on several grounds. For one thing, it is has been repeatedly criticized for its inability to account for institutional change over time. This deficiency is not simply the result of an oversight or reflective of an easily correctable gap in the literature: fundamentally, the approach is so insistent on the determinant impact of institutional settings on actors that it is ill-equipped to locate or explaining agents desirous and capable of enacting far-reaching alterations to those institutions. At the same time, the case studies produced by scholars employing a VofC framework have consistently downplayed the actuality of real-world institutional variation; most of these more empirical writings have been directed towards gainsaying others' claims regarding transnational, cross-context processes of liberalization as well as allegedly intransigent anti-statist, anti-labor organization, and anti-welfare employers.

Nonetheless, social scientists utilizing VofC-inspired frameworks have increasingly, in the last decade, acknowledged that there have been significant recent changes in the institutional configurations of Western European economies – and that the approach has suffered from its failure to provide plausible analyses of those changes. Wolfgang Streeck and Kathleen Thelen, for example, have written that "contemporary scholarship…on 'varieties of capitalism'…seem[s] to be producing analyses that understate the magnitude and significance of changes" (Streeck and Thelen 2005: 5). Recognition of this failure of the literature has motivated a series of works by theorists attempting to augment the VofC model with potential mechanisms engendering change. Hall and Thelen, for example, insist that VofC perspective treats the dynamics of coordination not as the inevitable response of effectively passive actors to institutional contexts, but as a "political problem": the institutions undergirding the "strategic" coordination of CMEs, they say, are reproduced because actors have drawn conclusions from accumulated experiences – conclusions that are regularly reaffirmed – about the costs of the intensified conflicts that would arise in the absence of those institutions. "Institutional adjustment" is not solely produced by changed government policies, but is often driven "from below," especially by firms, but more broadly by multiple potential actors that are constantly interacting and responding to one another, to exogenous shocks, and other new contextual considerations.

Hall and Thelen write that "There is no doubt that developments in the international political economy are important stimuli for contemporary institutional change" (Hall and Thelen 2007: 13). Yet, the "impetus for change" can also be generated endogenously, as institutions themselves have unintended consequences detrimental to their own reproduction. Institutional variation, they write, can take the form of direct "reform." In that case, they assert (echoing other VofC scholars), change is engendered by the break down of older cross-class coalitions favoring previous institutional structures and the creation of nascent coalitions hospitable to change.

Elsewhere Thelen, first alone and then with Wolfgang Streeck, has sought to counteract what she perceived as the twin pitfalls of institutionalist and other path-dependent methodologies: either, she says, they imbue social forms with a stability that is, in practice, remarkably robust and thereby ascribe to them a static continuity; or else they manifest the opposite but equally problematic "punctuated equilibrium" conception of change, in which systematic alterations are assumed to be limited to certain "critical junctures" of upheaval and potentially drastic transformation – with those critical junctures treated as infrequent, momentary bursts of crisis, produced by exogenous shocks, in between long, calm periods of institutional stasis.

As against what they perceive as dueling, flawed conceptions of institutional change, Thelen and Streeck argued that significant institutional variation tends to result from the gradual accumulation of minor changes over time. Institutions, they say, are not static, but dynamic, and often gradually evolve under the impact of endogenous forces even when their form or appearance seems stable. Exogenous shocks or critical junctures are not necessary for institutions to change. Institutional change is not limited to revisions to the formal structure of the institutions; even where institutional remain intact, that formal continuity might belie alterations in their "logic" caused by developments in the contextual setting within which they are embedded. Building on earlier work by Thelen herself and others (such as Hacker), they identify five "broad modes of gradual but nevertheless transformative" institutional change". Among these are: displacement", "layering" "drift," "conversion," and "exhaustion," in which the operations of an institutional framework engenders destructive pressures that slowly undermine or break-down the institutions themselves. In later works, other central figures in the VofC literature, such as Peter Hall, have incorporated these insights into their own attempts to provide accounts of institutional variation over time.

More recently, in his *Reforming Capitalism: Institutional Change in German Political Economy*, Streeck attempted to develop these notions of institutional change by examining the restructuring of German capitalism. Streeck criticizes the VofC literature for suggesting that institutional stability can only be eroded by some exogenous shock; ignoring Hall's later work with Thelen, he is especially critical of Hall and Soskice, who in their influential 2001 piece briefly referenced financial deregulation as the potential "string that unravels coordinated market economies" (Hall and Soskice, 2001: 64). Instead of assuming self-sustaining institutions threatened only by exogenous shocks, Streeck argues that institutions themselves can generate self-destructive effects, primarily by virtue of their own continued functioning, and thereby also undermine other institutions with which they are linked. Streeck identifies five core, inter-linked institutional sectors that have, in Germany, been subjected to "equidirectional," long term process of change: collective bargaining and wage setting; intermediary organizations; social policy; public finance; and corporate governance. The parallel changes in these and other sectors were not the product of any "master cause" or "agent." They were not the result of a need to improve the efficiency of German firms in the face of declining and or relatively poor economic performance. Nor were they simply outcome of the pressures of "internationalization." Instead, the shared direction of the changes reflects the historically-determined inter-dependence of the institutions: thus, generous social welfare benefits and the extension of labor organizations to the service sector were mutually-reinforcing dynamics that engendered fiscal problems and growing difficulties for unions, and contributed to the fragmentation of collective bargaining.

The VofC literature thus provides us with at least two divergent sets of expectations regarding the potential for significant change over time: for some VofC theorists, the institutions composing a given type of political economy may change, but will likely remain firmly within the bounds of that type-category. For others, gradual, mostly internally-induced processes of institutional variation can eventually become system-altering. Despite those differences, all VofC theorists agree that retrenchment will not often be carried out through planned, announced, widely contested and/or legislated reforms, and will rarely pit labor, capital, and the state against one another as the contending parties in direct, class-based confrontations. Most importantly, both models suggest that, whatever the cause of change, the primary sources of cross-national variation in the dynamics of institutional development are the divergent institutional configuration of each country's political economy; otherwise, common patterns of change across national frontiers become the inexplicable historical coincidence of parallel contingent developments.

The Hartz Welfare Reforms in Germany

None of these aforementioned approaches, however, are capable of generating entirely satisfactory explanations for some of the key developments of recent years. Take, for example, the Hartz package of welfare reforms, implemented in 2003-2004 by Germany's "Red-Green" coalition government. The Hartz reforms were a core component of the Agenda 2010 economic strategy announced by SPD Prime Minister Gerhard Schroder in the spring of 2003. The most significant changes were contained in the Hartz IV legislation, which among other changes, lowered the time limit pertaining to eligibility for primary unemployment benefits from 32 months to 12 months; collapsed aid for the long-term unemployed into social assistance, creating a "single, flat-rate, means-tested benefit" (*Arbeitlosengeld* II); intensified requirements on beneficiaries that forced them to accept employment offers, even for jobs far below their skill levels and previous wage rates; reduced protections from dismissal for employees in small firms; and undermined labor and business organizations' control over the previously autonomous Federal Labor Agency. The introduction of the Hartz IV reforms reflected and reinforced the declining power (especially politically) of Germany's trade unions; the virulent protestations of the latter against the reforms were ignored by Schroder, his cabinet, and other SPD leaders. Probably at least in part because it eliminated key "de-commodifying" measures that ameliorated workers' structural disadvantages vis-à-vis employers, Hartz IV contributed to a sharp decline in the share of Germany's national income accruing to wages.

What are the implications of Hartz IV for the analytical frameworks commonly employed in the study of the welfare state? It represented the sort of extensive institutional reform the potential for which was traditionally downplayed in the VofC literature. While Streeck situates it within his larger narrative about the "gradual…erosion of the state's fiscal capacity" in Germany, Hartz IV was not simply reflective of the declining influence of intermediate organizations in general, but an attack on workers in particular. It was a response to genuine macroeconomic problems, specifically chronically low employment rates – in fact, it did succeed in providing a boost to German industry by helping lower labor costs for manufacturing firms. Contrary to the expectations of the "Power Resources" approach, Hartz IV was pushed through by a social-democratic prime minister heading a left government in a country that retained relatively strong corporatist institutions. The reforms fundamentally altered Germany's welfare state, replacing policies characteristic of Christian Democratic or conservative welfare regimes (such as relatively generous benefits tied to employment and corporatist bargaining) with others more emblematic of liberal regime types (flat-rate, means tested programs, labor market liberalization, and the like).

Hartz IV was pushed through despite the German population's overwhelming and robust support for the maintenance of the welfare state – indeed, in 2004, more than 41% of respondents to one national poll agreed with the statement "benefits and social services should be expanded," while nearly as many others agreed that they should remain at current levels.[1] The Schroder government ignored opposition to their plans even though that decision hurt them in subsequent national and regional elections, including the 2005 elections for the federal bundestag and the parliament of North-Rhine Westphalia, Germany's largest state. Even more momentously, Hartz IV was the key proximate cause of a major split in the SPD, an event which facilitated the formation of the Left Party (*Die Linke*), and created the conditions for the latter party to emerge as a serious political competitor to the left of the SPD. These reforms were instituted in happened in the context of a decentralized, federal political system marked by numerous veto points, in which the social and political power of interest groups favoring the maintenance of welfare state structures was historically buffeted by powerful organizations with formalized institutional roles and capacities.

Although especially drastic, the Hartz reforms were emblematic of changes to the welfare state introduced in many European countries over the past several decades. Such reforms not only lowered the cost and therefore contributory burden, but just as importantly, incentivized labor market participation. The introduction of these sorts of welfare reforms in Western Europe was not dependent on the machinations of neoliberal ideologues or aggressive lobbying by business organizations. Rather, they were the product of state actors' efforts to resolve chronic economic and fiscal difficulties for which previous, less transformative policy innovations had proven inadequate. In the German case (as well as in other "conservative" welfare states), for example, governments from the 1970s onwards had utilized early retirement schemes to remove workers from overfilled labor markets, but this fix was both inordinately expensive and ineffectual.

[1] Oliver Nachtway and Tim Spier, "Political Opportunity Structure and the Success of the German Left Party in 2005," pp. 9.

States presiding over capitalist economies are subject structural and political constraints constricting the options available to them in the face of crises: thus, when the Keynesian reform program implemented by the Mitterrand regime - in early 1980s France – exacerbated balance-of-payment and fiscal deficits, engendering a quick rise in inflation, the government determined that a policy retreat was preferable to the alternative path of withdrawal from global finance and currency market institutions. Within limits, however, states may employ myriad methods for achieving desired outcomes. Relatively autonomous political factors shape the choices that state actors make: these may include the variables cited by the "Power Resources" or "Varieties of Capitalism" literature, such as left governance, the strength of labor organizations, or cross-class coalitions favoring certain policy bundles over others.

Communism, Social-Democracy, and Mobilization

Yet, entirely ignored or quickly dismissed in the current welfare state literature is another potential variable shaping welfare state developments: the effects of disruptive mobilizations by aggrieved groups. Disruptive subaltern mobilizations can have multiple detrimental consequences for elite groups, such as employers and state actors: for example, the blockading of major ports and oil refineries in France during the latest round of contention over proposed pension reforms disrupted the economy for days.

It is important to note that the claim here is not that cross-national variations in strike rates are responsible for variations in welfare state retrenchment. Analyses that attempt to gainsay the importance of "class struggle" for welfare state developments tend to rely on quantitative tests of precisely this latter relationship. Yet in employing a category measuring the total number of strikes, strike days, number of workers on strike, and other similar independent variables, these social scientists are falling into a positivist fallacy: their assumption is that strikes – or even wildcat strikes – have the same social and political meaning, regardless of context. However, ostensibly similar "strikes" often have vastly different dynamics, depending on factors such as the number of workers on strike, the number of days the strike lasts, etc. - but also others that are more difficult to quantify, such as militancy (for example, the amount of picket line violence), the support it garners, the control that union officials are able to exert over the strikers, etc.

Furthermore, a strike is not a sui generis phenomenon, but an action taken within the context of a broader conflict, and it can only be understood as such. That means, for example, that a small or short strike that is merely one event within a larger campaign marked by great militancy can have vastly greater implications than a larger or longer strike that was called as a one-off affair by union leaders desiring merely to express dissatisfaction. Indeed, a non-strike job action can be much more momentous than a general strike if the latter is not one component of a broader set of mobilizations.

Additionally, the relevant factor is not simply the level of disruption at the point of production. Non-worker aggrieved groups such as students can engage in disruptive mobilizations. For example, while student movements are less able to directly undermine the functioning of the economy, they can nonetheless affect social and economic disruption, as did the French students during the mobilizations against the so-called "First Employment Contract" (CPE) during the spring of 2006. The most effective disruptive mobilizations are those that garner not only substantial support from the general public, but also active participation by large numbers across multiple social and economic sectors.

A key determinant of the geographic variation in mobilizations targeting the welfare state was the political current hegemonic on the left and in the labor movement in the era after WWII. Throughout the welfare state literature, the left and the labor movement are treated as politically homogenous entities. That treatment is misleading, because it ignores what Judith Stepan-Norris and Maurice Zeitlin call the "the intraclass struggle within the class struggle" (18); in Western Europe, that term principally refers to the competition between communist and social-democratic.

In the post-War decades, the character of the left and labor movement was largely shaped by the nature of the party of the dominant left-wing party. In France and Italy, Communist parties were predominant: The PCI and PCF led their countries' key working-class organizations. Alternatively, in Greece, Spain, Portugal, conservative dictatorships drove Communists underground for substantial periods of time. Yet, especially in the latter two of countries, continued to play a central role in illegal oppositional and trade union movements, and they rapidly rose to prominence when the dictatorships collapsed. Elsewhere in the region, CPs were marginal or, in the case of West Germany, banned for fully three decades. The social-democratic or labor parties that were hegemonic on the left in these latter countries experienced varying degrees of electoral success and different levels of working-class support (manifested in either membership or vote totals). Moreover, they did not all have parallel internal structures or identical programs. Yet, they did share similar general orientations – and unlike the Communist Parties, they regularly won power at a national level, and were thereby able to directly shape government policy-making.

Progressively, over the course of the post-War decades, West European CPs' came to resemble more closely, in political orientation, their social-democratic counterparts: for example, they detached themselves from Moscow and became increasingly focused on electoral competition and parliamentary maneuvering. Those processes culminated in the 1970s with the rise of "Eurocommunism," a shift led by the PCI's Enrico Berlinguer – but they were also manifested by parties ostensibly opposed to Eurocommunism, such as that of France and Portugal.

Nonetheless, even as they grew to resemble their social-democratic competitors, West European CPs retained several essential characteristics that differentiated them from the parties of the Second International. First, despite their best efforts, they remained (from the immediate post-War years into the 1980s) political pariahs, consistently excluded from national governance and coalitions with other parties. Primarily resulting from the continuing salience of Cold War geostrategic concerns – which made Communists universally unacceptable coalition partners – their toxicity to rival political formations, mitigated by only minor and temporary exceptions, meant that, whatever their size, they remained outside of government. Intransigently hostile to the USSR, suspicious of the Communists, and often backed (via various means) by the United States, other parties isolated CPs and ignored Communist requests for alliances. Bouts of Communist inclusion in national governments have been brief, limited even in their bastions of greatest strength to the two years after WWII in Italy and that period, along with the first two years of the Mitterrand regime, and the "Gauche Plurielle" coalition of 1997-2002, in France. Moreover, in these cases, Communists were relegated to relatively minor cabinet posts, and Party ministers were unable to effect dramatic alterations of government policy.

Whether they founded trade unions or were founded by them, West Europe's social-democratic and labor parties were usually closely connected to centralized union organizations. Often, the social-democratic parties afforded unions a privileged status within the parties' structures, for example, by allowing the unions to cast unified block votes on behalf of all of their members in party elections. In office, social-democrats repeatedly sought to construct or extend institutional supports for labor organizations. Even in countries like Germany where conservative or Christian Democratic parties dominated national government for the bulk of the post-WWII era, with social-democratic parties relegated to long-term opposition, centralized trade union organizations were able to leverage their position with the employers and the state in order to forge important institutional roles and robust protections for themselves. These might take the form of legally-guaranteed rights for unions and their members. They also might be manifested in strong workplace organizations like works councils (though unions often viewed these as competitors rather than resources) and co-determination rules; centralized, encompassing collective bargaining systems; co-management of social welfare benefits; and recognition of the unions as essential social partners sharing responsibility for the effective functioning of national socio-economic institutions. Social-democratic governments implemented important reforms favorable to workers; where they were in power for long periods, they created welfare states and other economic institutions that not only improved the lives of workers, but also reinforced the organizational strength of labor.

Where Communists were hegemonic in the left and labor movement, competing political forces unwilling to accept Communist leadership of the labor movement split off from the existing CP-led unions in the years immediately following World War II. Encouraged by the United States and local elites hostile to the USSR and to the Communists, non-Communist labor leaders built competing union federations that they could control. Powerful Communist Parties therefore served as a barrier to the creation of powerful, centralized union federations: in Italy and France, for example, unions were fractured along political lines; the result was decades of endemic competition between Communist, socialist, and Catholic-oriented unions. Communist hegemony within the left and the labor movement also produced parallel implications for a range of socio-economic and political outcomes in a given Western European country. In Italy and France, schemes of tripartite bargaining between the "social partners" that could channel conflicts and grievances into regularized processes of negotiation and compromise were, at least through the 1970s, weaker than elsewhere in Western Europe. The general exclusion of the left from national government eliminated from power the political force with the greatest interest in institutionalizing the power of labor. Moreover, labor's de-centralization prevented the unions from emerging as a coherent, unified social partner. Nor could any individual union maintain workplace influence robust enough to forge wide-ranging, long-term agreements with employers – as did the German unions that traded wage restraint for full employment - or carve out extensive institutional protections. Thus works councils had relatively limited powers, business-labor bargaining was more decentralized, and there were only very limited apparatuses of corporatist negotiation for employees to exert a collective influence over the operations of state and capital. Nor did governments in these countries tend to provide other institutional supports for labor, such as extensive, universalistic, "de-commodifying" social welfare benefits, In countries where they were represented by relatively powerful social-democratic formations, employees could utilize institutional supports, negotiations, or electoral victories to achieve desired aims.- though their efficacy in winning concessions through those means varied cross-nationally, depending on factors like the strength of the unions and allied parties as well as economic conditions. Employees in France and Italy, on the other hand, were always much more dependent on their own capacity to mobilize. Additionally Communist-associated trade unions, facing competition and wanting for strong institutional protections, had to constantly win and re-win the support of workers who might otherwise defect to other labor organizations and thereby cripple those of the communists. Those divergent avenues for resolving collective grievances prevented labor in the latter countries from becoming reliant on external guarantees of their position. Instead, they developed effective capacities for mobilization. As a result, industrial relations in Italy and France were famously conflictual: as VOC-inclined scholar Bob Hancke has noted, the "capacity" of French "labor unions to block far reaching changes" through the organization of shop-floor grievances into active militancy remained substantial," at least, up to the Mitterrand period (325). Even in the 1980s, when in the early years of the Mitterrand government the French Assembly passed the union-backed Auroux laws – creating new vehicles for workers participation in firms' decision making - the counterintuitive result was to weaken the unions. Experienced in mobilizing the rank-and-file, Hancke explains, French unions "had no experience with the type of social democratic union activities that the Auroux laws carved out for them," (326).

Strong Communist parties and their affiliated trade unions not only lacked the institutional supports that protected social-democratic labor movements; they also had attributes that facilitated mass-based collective actions. For instance, PCI and the PCF helped inculcate left politics as a mass popular political phenomenon; powerful CPs pushed subaltern groups to conceptualize grievances in collective, class-based, confrontational, and radical terms, even as they ensured that there existed no alternative means for resolving grievances. Furthermore, because of their unique histories, Communist parties retained their highly centralized internal structures (relative to social-democratic and labor parties) and self-conceptions as parties of radical action. West European CPs never, before 1989, formally abandoned the goal of abolishing the capitalist market and replacing it with socialism - however members' understanding of this latter term changed over time. They trained supporters in highly mythologized accounts of the party's past, centering on invocations of heroic leadership of momentous historical struggles – be it in anti-fascist resistance movements or in strikes against employers and the state – and in political frameworks that posited the party's role as the vehicle for working-class political action. In many ways, their mass base of members and supporters (hat is, their primary sources of power, given their consistent failure to achieve national electoral breakthroughs) depended on their ability to retain loyalties built on those core, traditional commitments and historical legacies. Lacking access to the levers of state power, CPs were less able than social-democrats to credibly promise that electoral victories and parliamentary bargaining, to be achieved at the cost of pragmatic political concessions and a shift towards the center, would produce steady, tangible improvements in their constituents' lives. They thus need to locate alternative strategies for shaping social and political developments.

Moreover, with only marginal geographic and temporal variation, West European CPs were nearly always antagonistic to dissident internal tendencies or other groups on the far left. In order to prevent the emergence of radical challengers to their monopoly on the far-left – an increasingly difficult task in the 1960s and 1970s – Communists had to be able to establish leadership over any significant socio-political movements that might emerge, particularly in their core working-class constituencies. Nor were CPs, unlike their social-democratic counterparts, organizationally flexible enough to channel the rebellious tendencies engendered by periods of upheaval into endogenous arenas of social contestation (such as local branches, youth wings, and party congresses) where their impact could be limited – rather, dissident radical groups related to CPs as external critics, sometimes because they were recent expellees from world of official Communism. CPs thus faced exogenous competition during periods of heightened socio-political conflict; the resulting fear of potential competitors made them more susceptible to calls for more aggressive postures. At the same time, Communist leaders regularly sought to utilize bouts of widespread contention to improve their bargaining positions in their regular efforts to negotiate their way into national political office. While appointments to cabinet posts became Communist leaders' primary motivation during the post-War period, they had few resources to bargain with except for the promise that they could shape – and control – grassroots mobilizations. While CP officials were often at first hesitant or hostile regarding actions they did not direct, when they did shift to support them, they could widen and deepen participation in movements (within the limits of the party's political goals).

Western European CPs, despite their ambivalence, were thus more prone than social-democratic or labor parties to provide backing, even if hesitantly, to subaltern groups engaged in confrontational, extra parliamentary social and political action. Due to that stance, and because powerful Communist parties concomitantly entrenched far left politics among subaltern populations and helped prevent the construction of social-democratic institutions, they facilitated the explosion of generalized struggles involving participants from a range of subpopulations, and transcending localized demands. Communist hegemony within the left thereby engendered a tendency towards politicized mobilizations targeting clusters of employers as well as the state. Workers and other subaltern groups in countries such as France and Italy came to rely on their own social power, rather than on elections or institutions of corporatist bargaining provided by the state to protect their interests. Moreover, politicized, class-based conflicts augmented the impact of Communist ideological influence to entrench a widespread commitment to class-bounded collective identities. Simultaneously, experiences of successful large-scale, confrontational mobilizations forged a tendency towards alliances across aggrieved groups as they drove disaffected populations to identify common opponents.

Mass mobilizations were not absent in countries where the left was dominated by social-democratic or labor parties, but their character was different. Strikes and other forms of workplace action tended to focus on more localized or sectional demands. The goals of such actions were usually more limited in scope. Political demands were more often pursued via electoral means: disaffected groups would seek to shape the official policies of dominant social-democratic or labor parties, and to ensure the success of those parties in democratic elections. Access to state power limited the propensity for aggrieved groups to engage in politicized direct action first because institutions of corporatist negotiation provided mechanisms to solve conflicts with a minimum of confrontation; second, because the requirements of electioneering and national governance gave social-democratic and labor parties both the motivation and a convincing justification for using their influence to convince workers and the left to make concessions, eschew radical goals, and avoid provoking elites.

These dynamics were reflected – and in turn, reinforced – by the upturn in socio-economic and political conflicts and mobilizations of the late 1960s and 1970s. During this period, workplace militancy matched external mobilizations across wide swaths in Western Europe. Yet, only in Italy and France, among the region's democracies, did these engender mass-based, centralized, political challenges to the state that amalgamated labor mobilizations with other social movements. Those mobilizations drove governments in France and Italy to provide unions with more extensive institutional powers in the hopes that they would be able to establish some stability at the shop floor. They also trained a generation of labor and social movement activists in a politics of mobilization and contention, whereas in countries like Britain, Germany, and Sweden (vastly different, except in the dominance of social-democracy on the left and in the labor movement) political demands were mediated through electoral efforts. In Italy, for example, the conflicts of the 1970s engendered the creation of various institutional protections labor, such as the *scala mobile* (which indexed the entirety of industrial workers' wages to inflation, through automatic, annual adjustments); but these mobilizations also pressured the state to abolish Italy's Bismarckian health care system, in which multiple, parallel state-guaranteed funds paid for services that differed drastically for employees in various occupational groups, and replace it with a universalistic, much more egalitarian, comprehensive national health care system (the *Servizio Sanitaire Nazionale*, or SSN).

The legacy of these historical differences has shaped responses to the process of welfare state reform even up to today. Countries in which social-democracy dominated the left in the post-War period, labor continued to rely primarily on the institutional protections that were once afforded to them, and political demands were still translated through social-democratic parties – even as the returns to the strategies declined drastically. In France, the dynamics engendered by the PCF's historical strength survived that party's decline during the 1980s and 1990s, and has been maintained as a social and political legacy in the intervening years. That legacy was reproduced by organizations and institutions forged through the experience of socio-political conflict: thus, for example, the leftist trade union SUD was formed in the late 1980s by militant public sector workers in Paris who resisted the conservative turn of their existing union, the CFDT. Many of these activists were veterans of the social battles of the 1970s, and the union they built has continued to play an important role in mobilizations. It was also manifested in the continuing weakness of corporatist mechanisms of social negotiation and partnership.

The Reform Experience in Germany and France

To illustrate the effects of these different histories of left/labor politics, it is instructive to examine the variegated experiences of welfare reform in France and Germany. These two countries are often linked, because they share a background as coordinated market economies with conservative welfare regimes. The structures of the post-WWII West German welfare state reflected the policy legacies of Germany's traditional Bismarckian social insurance system. The maintenance of these was ensured by the political dominance of the Christian Democrats (CDU/CSU) who retained control of the national federal government, in coalition with the liberals (FDP), from the elections of 1949 until the second half of the 1960s. Relegated to unending opposition, the social-democrats and their trade union allies were unable to implement the more egalitarian, universalistic and generous welfare benefits they sought. Social welfare continued to be segmented by employment and minimally de-commodifying. Still, through a combination of parliamentary maneuvering, conducted by the SPD with more left-wing Christian Democrats, and extra-parliamentary pressures, German social-democracy succeeded in securing key desired changes from the ruling CDU/CSU-FDP coalition, reforms which nonetheless failed to transform the basic features of the welfare system. Thus, the 1957 pension reform equalized provisions for the still-separate pensions of blue and white collar workers, partially indexed benefits to wage growth, and raised the income ceiling for contributions. Soon after, union-organized strikes led the government to increase replacement rates and lower waiting times (from three to two days) for illness benefits.

Despite its consistently strong performance, from the middle of the 1960s, German capitalism faced pressures to limit wage growth - resulting first from the growing threat of wage drift produced by full employment, then by the intensifying militancy of substantial elements of the labor movement at a time when German manufacturing faced stiffened competition on global export markets. The burgeoning economic difficulties of the late 1960s led the Grand Coalition that rose to power 1966 – and, for the first time in the Federal Republic of Germany, included the SPD – to embrace a Keynesian reflationary economic strategy, embodied in the "Stability and Growth" law of 1967. The use of fiscal stimulus to restore growth and employment threatened to produce a concomitant spike in inflation and spiraling labor costs. In that context, first the Grand Coalition of 1966-1969, and then its successor SPD-FDP government, pursued an incomes policy to limit labor costs while it pursued a Keynesian-style, reflationary fiscal policy. Given the shop-floor militancy of German workers during that period, which reached its apogee in the wildcat strikes that exploded in 1969, the unions struggled to balance the demands of the SPD, for wage restraint, with their members insistence on improved pay and work conditions: it was because of fears that they would lose control over their constituents that the key IG Metall union formally abandoned its participation under the tripartite macroeconomic bargaining of the "Concerted Action" program.

In order to retain the adherence of the unions to the wage-ceilings established by "Concerted Action", the government agreed to make concessions on issues of social welfare: in the late 1960s, the SPD convinced its cabinet partners to introduce labor-backed welfare reforms as a necessary recompense if unions were to retain control over their members while agreeing to wage restraint. While the Keynesian reflationary economic approach peaked in the years 1967-1969, and was halted when the SPD government sided with the conservative, monetarist Bundesbank in a dispute over the allegedly deleterious impact on the deutschmark of expansionary state spending, "Concerted Action" lasted until 1977. The possibility for rank-and-file labor militancy, with myriad negative socio-economic and political consequences, also concerned the state. Those considerations helped the SPD push through long-desired changes to the welfare system during the 1970s. Among these reforms was the 1972 pension reform which introduced flexible retirement age (full pensions were available at 63 to workers with 35 years of service, while 25 years of employment made workers eligible for three-quarters pensions). Unemployment benefits were increased. The Federal Law for the Promotion of Training committed the state to an active labor market policy. Meanwhile co-determination was extended, notably in the form of "parity codetermination" that provided for equal worker representation on company supervisory boards in all firms with more than 2,000 employees.[2]

Although the performance of the German economy declined during the 1970s, the SPD regimes headed by Willy Brandt and then Helmut Schmidt resisted calls to cut welfare spending significantly in the face of fiscal problems and growing unemployment. Indeed, after the 1973-1974 economic crisis elevated unemployment to levels not seen since in West Germany since the immediate post-WWII years, the costs of providing for those without work meant that simply maintaining the welfare state at existing levels required increased contributions. Late in the decade, the government did introduce limited austerity measures designed to restrict the growth of welfare costs by changing the rules determining benefit rates, increasing contributions for pensions and user fees in health care, and reducing certain benefits. Yet, generally, it used welfare spending as a mechanism to maintain growth, as state payments to beneficiaries and expenditures for services augmented domestic demand.

The SPD-led coalition of Helmut Schmidt was brought down by a second economic crisis that began at the end of the 1970s, produced by an explosion in energy prices and the destabilizing effects of the Volcker shock on the Deutschmark – the latter mediated through the European Monetary System (EMS), which had been introduced in 1979. Helmut Kohl's CDU-led coalition took power in 1982, promising significant liberal reforms. During Kohl's term in office, the German state began to privatize state-owned assets, although these sales were halted in response to the stock market crash of 1987. Kohl also introduced reforms to the tax code that, in effect, marginally reduced tax rates on corporate profits and the wealthy while increasing sales taxes. Early in his administration, a series of retrenchment measures were introduced to the welfare system; unemployment provisions were especially hard-hit, but co-pays in the health system were also increased, and pensions too were subjected to rollback (for example, by indexing benefits to net rather than gross wages, and capping state subsidies). Other reforms included a 1984 revision to the Youth Protection Law, which gave employers more flexibility to manage young workers, for example in regards to their hours.

Still Kohl's efforts at welfare retrenchment were constrained by a range of factors: for example, by the power of labor, the unpopularity of dramatic reforms, and Germany's federal system, which gave states great power to resist changes in systems like health care.[3] In fact, the German state continued, and even deepened, its attempts to use sustained welfare spending to resolve macroeconomic difficulties. Most importantly, the 1980s saw large-scale efforts to reduce unemployment and buffer employees in collapsing or bankrupt firms and industries by means of early retirement schemes (legal

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[2] Jeremy Leaman, The Political Economy of Germany under Chancellors Kohl and Schroder, pp. 11.
[3] Leaman, 61.

because of the age flexibility introduced into the pension system by the reforms of the early 1970s). Given that the retirement benefits accruing to the rapidly aging German population would have required higher payments into the welfare system independently of any programs for the unemployed, early retirement and other such policies meant to ease pressure on the labor market exacerbated the already chronic cost-containment problems facing the welfare state.

Still, the state viewed the maintenance of the welfare state as a necessity if the eruption of intensified class conflicts between business and labor was to be avoided. In the context of Germany's declining economic fortunes, this latter development was an ever-present threat. During the early 1980s, many German unions wanted to resolve employment difficulties by reducing weekly working hours to thirty-five hours, with no loss of pay. In 1984, the powerful IG Metall union led the largest industrial conflict in post-WWII German history, and forced employers in the metal-working sector to give way on the issue. Nonetheless, in order to remain globally competitive, German firms were forced to find alternative paths to improve efficiency: their success in this endeavor, achieved via strategies like a turn towards more advanced production techniques and investments in new plant and labor-replacing machinery left workers unable to determine the contours of the shop-floor developments. The result was that the expected gains of lower worker hours were lost, and the wage rates of German workers stagnated.

The troubles plaguing the German welfare state came to a head as a result of the reunification with the German Democratic Republic. The problem was not simply the costs of the structural and institutional integration of the six states of East Germany, exacerbated by the Bundesbank's rigid approach to currency conversion, but the necessity for the West German state to provide some relief for the victims of the post-unification economic dislocation. Fueled by the quick failure of East German manufacturing, unemployment spiked. To facilitate capital investment and erode government deficits, the CDU/CSU-FDP coalition of Helmut Kohl determined to rollback welfare expenditures: the result was sharp austerity measures, including a series of 1993 cuts that centered on reductions in the replacement rates of unemployment, and a 1997 pension reform that included an adjustment for increases in life expectancy into the determination of pension benefits. Despite their loud protestations, the unions were unable to prevent these reforms; in response, they direct substantial resources into the national elections of 1998, and played a key role in the election of Gerhard Schroder's Red-Green (SPD-Green Party) government.

Their efforts went unrewarded. Schroder's cabinet was brought to power promising to solve employment and other economic problems largely through a Keynesian program of fiscal stimulus and demand-boosting reforms. Its election raised the unions' expectations so much that in 1999, IG Metall demanded that the government lower the age of retirement from 65 to 60. Yet within a year, the coalition had abandoned its electoral promises in favor of a supply-side strategy of aiding profitability and encouraging investment by cutting costs on firms – a reversal exemplified by the angry resignation of the leftist SPD Finance Minister Oskar Lafontaine.

Schroder's election was at least partially the result of popular disaffection with the previous Kohl administration, but Schroder carried out many of Kohl's policy goals. For example, like Kohl he reformed the tax system so as to reduce rates on high incomes and corporations, while shifting the burden for funding the state to indirect taxes such as the VAT. In 2000, he also eliminated capital gains taxes. However, the potential benefits of the tax reductions on growth were mitigated by simultaneous spending reductions, in areas like education (Leaman: 169). German labor markets were liberalized: restrictions on fix-term employment contracts and subcontracting were removed; an earlier increase in the number of employees required before a firm becomes subject to employment protection regulations was reversed and then restored – as were tax exemptions for part-time employment; a statutory right to part-time work was also introduced.

Labor market liberalization, as well as fiscal savings, was also accomplished by the Hartz welfare reforms. The most far-reaching of these was the Hartz IV reform, which collapsed the previously existing generous long-term unemployment benefits into a lower-paying, means-tested, flat-rate social assistance benefit. Hartz IV was followed, just a year after Schroder's 2005 election defeat, by an increase in the retirement age from 65 to 67 – a reform which was largely the responsibility of the SPD Minister of Labor in the Merkel Grand Coalition. In these policy decisions, and others, Schroder ignored the complaints of the unions. He also partially privatized the pension system, creating and subsidizing a new set of individually-funded private pensions. That reform was one component of a broader shift towards privatization. As Wolfgang Streeck summarizes, privatization can take three different forms, and all of them were evident in Germany from the early 1990s until today: privatization can involve the sale of state own assets, which was carried out in German to cover fiscal deficits, and was especially extensive from 1998 onwards; it can also be manifested in the contracting out of public services, a common policy in Germany over the last two decades; finally, it can take the form of reforms, usually in regulation, that allow the private sector an expanded role in areas previously dominated by the public sector, such as the provisioning of health insurance. Schroder engaged in all three types of privatization.

Furthermore, under Schroder the transformation of the core institutions of German political economy continued or even quickened in pace. Take industrial relations: already before the latest global economic crisis, the percentage of the workforce covered by collective bargaining agreements had shrunk steadily – from 72% of workers and 53% of workplaces in 1995, to 57% and 37%, respectively, in 2006 – a fall paralleled by the similar decline of works councils. Even where works councils exist, they are increasingly negotiating additional concessions in local agreements with employers, a development codified through the "opening clauses" that became widely prevalent in union-bargained contracts after the 1990s: of all workplaces covered by collective bargaining agreements, the percentage also covered by concessionary local modifications to industry or sector-level contracts, exploded from 22% as late as 1999/2000, to 75% only five years later. Another growing phenomenon since the middle of the 1990s has seen employers illegally fail to carry out provisions of collective bargaining agreements.

Firm membership in business associations like *Gesamtmetall* has fallen precipitously, and remaining members are increasingly in special regional sections first created in the early 1990s for employers unwilling to accept sector or industry-level agreements, while significant conflicts between business organizations emerged for the first time. Union density has also declined consistently, even excluding the East German states of the former GDR.[4] Simultaneously, a series of mergers and reorganizations has left the shrunken labor movement politically divided between the left-oriented DGB union federation – with its eight remaining member unions dominated by just two, IG Metall and Ver.di) – and the more centrist former chemical-workers organization IG BCE.

Regardless of whether these changes constitute a transition across production regimes, they represent, as Streeck says, a trend towards the disorganization of German capitalism,

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[4] Claus Schnabel and Joachim Wagner, "Determinants of trade union membership in West Germany: from micro-data, 1980-2000," Socio-Economic Review (V. 3/N. 1, 2005), pp 1-24.

directed towards its liberalization. While the reforms of the late 1960s and early 1970s extended the social-democratic elements of Germany's Bismarckian, Christian Democratic welfare state, the changes of the past two decades have introduced or expanded liberal features that are reminiscent of the Anglo-American welfare state regime type. They have reflected and reinforced a decline in the power of both labor and business organizations, but have particularly hurt the position of workers, a reality reflected in the absolute and relative decline of the wages of German workers, and increased wage dispersion.

What is essential in this story is that while the labor movement was often strongly opposed to the reforms in question – an opposition girded by the still relatively strong trade unions and extensive works councils; by quite large manufacturing and transport sectors, in which employees have immense potential power over the export-dependent German economy; and by public hostility to welfare cuts – they were unable to lead a mass-based, active resistance to these sometimes quite confrontational and direct rollback measures. The unions could mount quite militant campaigns of strikes and other forms of direct action, but these were usually localized and sectional in character: the scope of mobilizations was limited by the positions and choices made by formal subaltern organizations – specifically unions - as in the case of the 1984 IG Metall strike, when the other unions negotiated their own agreements and left the metal workers isolated in their confrontation with employers. Even during the industrial upturn of the late 1960s, which followed on the heels of a decade in which the student and other non-workplace left movements grew tremendously in size and militancy, workplace struggles never combined with social movements to forge a general challenge to the state and the economic system.

In the case of the German left, labor's political demands were traditionally mediated through the SPD, where they were translated into electoral mobilization, as in the case of unions' efforts to help the social-democrats secure victory in the 1998 parliamentary election. Disillusionment with SPD governance inspired the more radical extra-parliamentary left politics of the German student movement in the 1960s, but these did not meaningfully erode the organizational monopoly of the official union organization and SPD among labor. Even in instances in which unions' political goals were not pursued directly through the SPD, their attainment depended on the threat that failure of state actors or employers to accede to them would lead to endemic localized conflicts or perhaps to a decline in unions' ability to control the behavior of their members. Neither of these latter dangers are able to inspire anything like the same fear they did in the 1960s and 1970s, as chronically elevated unemployment and the alteration of occupational structures, in recent decades, have eroded workers bargaining position, a trend evident in the long-term decline (by every measure) of Germany's trade unions. The effects of the historical dominance of social-democracy on the German left and labor movement The hard right turn of the SPD since Schroder's election led not to extensive, disruptive mobilizations, but to a momentous yet more indirectly impactful embrace by substantial segments of the labor movement and left, of a new, more radical formation, Die Linkspartei. The protests that marked the introduction of the Hartz IV welfare reform were large by German standards, but limited in militancy and duration, and basically non-disruptive. The 2006 raise in the retirement age and the 2010 welfare cuts also garnered no disruptive protest movement. Thus, even as German social-democracy was transformed by the developments of the past few decades (and especially the period since 1998), the legacy of German social-democracy continues to shape the responses to attempted welfare cuts in essential ways.

Commentators often suggest that the development of the French welfare state over recent decades has paralleled that of its German counterpart. Differences are held to be minor, limited to the greater expansion of means-tested benefits that the French state provides to the poor. That argument, however, underestimates the significant discrepancies in the character of welfare state reforms in these two countries.

The mobilizations of 1968 had a significant effect on France's political economy. Its impact was not limited to the Accord de Grenelles - negotiated at the end of May by Pompidou, employers, and representatives of the trade unions – which called for private and public sector pay increases, reductions in work hours, strengthened rights for unions, lower social contributions from workers, and the like. Despite the collapse of the movement in the face of electoral defeat, the events of May and June fed into a sustained period of workplace activity which resulted in a roughly 35% increase in real wages between 1969 and 1973.[5] Paralleling developments in Germany, France's declining economic performance over the course of the 1970s led the center-right government of Jacques Chirac to first seek the restoration of growth through Keynesian reflationary policies, during the period 1973-1975. However, continuing fiscal and macroeconomic problems drove the subsequent Barre government (1976-1981) to implement mildly liberalizing reforms - with little practical effect besides a rise of local protests in regions particularly hard-hurt by the restructuring of long-standing firms and industries.

Francois Mitterrand's election to the presidency in the 1981 constituted a turning-point for French capitalism.[6] Mitterrand's rise to power exemplifies well the impact of the PCF's popularity on French social-democracy: a right-winger in his youth and then an important politician of the center-left in the 1960s, in the 1970s Mitterrand pulled his newly unified Socialist Party (PS) towards the left in an effort to win votes from the Communists - a necessity if the former was to replace the latter as the leading force of the French left and if Mitterrand was to enjoy electoral success.

Upon taking office, the Mitterrand government sought to implement a vast program of social reforms: the minimum wage, family and housing allowances, and social security payments were all increased; the work week was reduced, usually without a cut in pay; and the government introduced legislation providing for early retirement with nearly full benefits. These reforms made sense not only as a means of encouraging greater social equality, but also as a Keynesian economic program designed to boost consumer demand. And consumer spending did rise; the problem was that those consumers were mostly buying foreign-made goods, exacerbating France's balance of payment problems. These difficulties led to a course reversal by the government in 1983.[7]

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[5] Nicholas Atkin, The Fifth French Republic, pp. 129.
[6] Daniel Singer, *Is Socialism Doomed: The Meaning of Mitterrand* (Oxford: Oxford University Press, 1988), pp. 154-156.
[7] Hall, "Socialism in One Country," in Cerny and Schain, pp. 85-89, 101.

Mitterrand's retreat was an important turning-point for France's political economy. Afterwards, the French state's historically relaxed monetary policies were replaced a commitment to the *Franc Fort*. The high value of the French currency was originally was maintained by informally tying the Franc to the German Deutschmark – a policy that necessitated austerity if the Franc was to avoid devaluation, but was meant to ease the chronic inflationary pressures of the preceding period. The move towards European-wide monetary institutions would augment efforts to use demands for currency stability to support calls for austerity. The end of traditional post-War French *dirigisme* after 1983 signified that the state would no longer intervene to protect favored firms or industries - but also that regulations constraining employers would be rolled back, a dynamic manifested in the liberalization of financial markets in 1985, followed by the removal of price controls in 1986, and then the elimination of price controls later in the decade. When Jacques Chirac's Prime Ministership (1986-1988), the government embarked on an ambitious program of privatization. Although it had to be shelved because of the Wall Street stock market crash of 1987 and the electoral victory of the Socialists a year later, the effort to privatize the extensive assets of the French state would begin again after the right returned to office in 1993.[8]

The French state's embrace of liberalizing macroeconomic strategies fed into reforms of the welfare state. The past two plus decades have seen significant changes in the structure and functioning of French welfare system: most importantly, successive measures have implemented greater numbers means-tested benefit plans, paid for through taxes and state resources, at the expense of contributory programs dependent on employment; they have also provided for expanded government oversight over the administration of *la Securite Sociale*. Pension reforms in the early 1990s and again in the past several yeas increased the minimum number of years of employment required for many workers to be eligible for their full pensions. Yet, much more far-reaching retrenchment proposals have been rejected. The reason is obvious: every major proposal for rollback is met with strikes, mass demonstrations, and other forms of mobilization. That has especially been the case since the December, 1995 strike of public sector workers against the conservative Juppe government's proposal to extend pension reform to state employees. It remains true today: even in recent months, there has been wide participation in strikes against Sarkozy's proposals for public sector cutbacks. That, I would argue, is the basis for the famously "frozen" character of the French welfare state. As in other countries in Western Europe French governments efforts to resolve the problem of unemployment has included an embrace of active labor market policies. By the beginning of the 2000s, the French state was spending as much on its labor market program as Sweden. What makes France unique is the type of labor market interventions pursued by the state. While policy makers have attempted to introduce liberalizing reforms that eliminate restrictions on employers or segment protections for workers (for example, by age), these have repeatedly been blocked by public protests: thus, in 1994, Gaullist Prime Minister Edouard Balladur's plan to create a special minimum wage for young people, 20% below the official SMIC, was abandoned in the face popular opposition. More recently, in the spring of 2006, the right-wing government of Dominique de Villepin was forced by a nation-wide student revolt to retreat, in the spring of 2006, to retreat from the core provisions of its proposed "First Employment Contract" (CPE), which would have removed employment protections for younger workers.

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[8] Beyond continuity

These incidents have rendered such liberal reform proposals a generally uninviting prospect for French politicians. As a result, they have tended to opt for higher-cost policies that boost employment by incentivizing firm hiring or workers' departure from the labor market. From the 1970s, early retirement schemes were at the core of the French state's strategy for improving employment performance. In France, early retirement meant that employees over the age of 55 (or even 50, in certain cases) could retire with full or nearly full pensions. The explosive growth of these programs after the 1970s was impressive: whereas only 59,000 French workers took part in such programs in 1974, in 1984, approximately 700,000 chose early retirement, and high rates of participation continued afterwards. As Jonah Levy notes:

> "The effects of early retirement on French labor market are striking. Today, fewer than one worker in three is still employed at age 60, and France's labor force participation rate for men aged 55-64 is among the lowest in Western Europe, at just over 40 percent" (Levy: 108).

While the right-wing governments of the 1990s focused their labor market efforts on subsidies and tax exemption for low-wage employment, the Lionel Jospin's "plural left" government, in office from 1997 to 2002, sought to facilitate the entrance of unskilled young workers into the labor market through the public sector: for example, it created the "Youth Employment Program" (PEJ), which paid 80% of the minimum wage and all social contributions for a period of up to five years, but only to the public and non-profit sectors – for-profit private firms were barred. The PEJ was costly, requiring 35 billion francs in funding, but also providing work to 350,000 youth.

Most famously, the "plural left" regime implemented the Aubry Laws of 1998 and 2000. These combined subsidies for employers (which were greatest at the lowest rungs of the pay scale) and greater flexibility on some scheduling issues, with a mandated 35 hour work week and strict limits on overtime. When the new government unveiled the first law, in 1997, without consulting employers beforehand, the head of France's main business organization (CNPF) resigned in protest (Vail: 90-91). Subsequent efforts at rollback of the 35 hour work week have failed to eradicate the core features of the law.

Thus, while France's political economy has been transformed, since the 1970s, in a process often paralleling developments in Germany, there are essential differences. In France, some efforts to reform the pension system have been blocked, as have far-reaching measures to liberalize labor markets. The generous minimum wage, or SMIC, remains intact. France's 1999 reduction in weekly working hours covered a larger segment of the labor force than did the agreements won by a limited segment of the German labor movement in the middle of the 1980s. As a result, the French work less: work hours are lower, as is labor market participation. The conservative bias towards the reproduction of the existing structures of French political economy is more pronounced: there is a long-term tendency towards disorganization, but many liberalizing measures that would create pressures towards substantial increases in labor market participation have been blocked.

Social scientists who study the development of the French welfare state specifically are cognizant that welfare reforms have been more restricted there is because of regular mass mobilizations against perceived attempts at retrenchment. Yet, they miss the important point that these mobilizations have been effective because and when they are disruptive, marked by the participation of wider social forces beyond the ranks of those immediately impacted by reforms, and outside the control of any coherent socio-political force or set of forces who have social or political aspirations making a potential turn from conflict to negotiation an attractive prospect. Not simply protests or symbolic general strikes, they, at several moments, become continually escalating protest movements involving rolling workers' strikes or student *bloques*, as well as the active support of wide swaths of the French population.

The necessary prerequisites for these types of mobilizations are twofold: aggrieved groups must lack any plausible alternative for achieving their aims than mobilization; and their militancy must redound across other social sectors garnering them not just sympathy but widespread identification with their demands. Both of these characteristics resulted from the historical dominance that the Communist Party exerted over the French left. Communist hegemony ensured that the corporatist institutions and structures of social-democracy were absent in France; it also meant that the left was trained in a politics that eschewed social-democracies' tendency to consider politics as an extra-parliamentary exercise, while additionally conceptualizing seemingly sector-level socio-economic grievances in much broader terms.

Conclusion

The above argument would undoubtedly benefit from the inclusion of additional case studies. At minimum, it would be help to discuss developments in Italy, where the social partners were successful in establishing corporatist-style relationships by the early 1990s, just in time for the Italian unions to negotiate significant retrenchment measures introduced into the Italian welfare state. I would also like to include a discussion of Sweden, which maintains a strong, robust welfare state to this day. It is important to clarify that the claim being made here is not that the existing literature on the welfare state is fatally flawed; nor is the point that mass, cross-sectoral, political mobilizations are the key to establishing strong welfare states, though as is evident in Italy during the 1970s, they can contribute to that process, or that they will simply prevent retrenchment. Instead, the argument is that the mobilizations spawned by the legacy of Communist hegemony over the left and labor movement will substantially affect the dynamics of welfare state reform: while in many countries, the thrust of the changes in the welfare system have been towards increasing labor market participation, in France, these are much less pronounced.