

## I

## Varieties of Liberalization and the New Politics of Social Solidarity

For the past few decades, much of the scholarship on the political economy of the rich democracies has been organized around a broad distinction between an inegalitarian “liberal” model of capitalism that prevails in much of the Anglo-Saxon world and a more egalitarian “social” model found in many European countries (e.g., Pontusson 1997; Acemoglu et al. 2012). While both models seemed equally viable in the Golden Era of postwar development, many contemporary trends seem to spell trouble for the European social model. The litany of pressures on these systems is long and includes heightened competition in international markets, footloose finance, deindustrialization, declining union power, fiscal distress, and ascendant neoliberal ideology, among others. In light of these trends, some observers have suggested that the Golden Era of egalitarian capitalism may be over and that in the end, there is just one model of capitalism after all – the harsher one in which the market prevails over social solidarity (e.g., Howell 2003; Glyn 2006).

While sharing many of the concerns that animate these analyses, I argue here against the idea of a uniform slide toward Anglo-Saxon-style liberalization. I propose a new, more differentiated way of thinking about contemporary changes in the political economies of the rich democracies. The framework offered here breaks with the continuum models on which much of the traditional literature has been based, in which countries are arrayed along a single dimension according to their degree of corporatism or, more recently, of coordination. In doing so, it reveals combinations – declining solidarity in the context of continued coordination, and continued high levels of equality with significant liberalization – that other frameworks rule out by definition. Moreover, and against the dominant view of institutional stability as grounded in vested interests and straightforward feedback effects, I suggest that the institutions of egalitarian capitalism survive best not when they stably reproduce the politics and patterns of the Golden Era, but rather when they are reconfigured – in

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both form and function – on the basis of significantly new political support coalitions.

A vast, rich literature on the welfare state has taught us a great deal about recent changes in welfare regimes and social policy. This study therefore does not rehearse developments in this area, but instead concentrates on three other institutional arenas that welfare-state scholars tend not to examine, but that figure centrally in a different, though related, literature on varieties of capitalism (VofC). Specifically, I examine recent trajectories of change in three political-economic institutions – collective bargaining institutions, institutions of vocational education and training (VET), and labor market institutions – that have also been linked directly to the distributional outcomes of ultimate concern in this study.<sup>1</sup> The differences that have traditionally distinguished liberal market economies (LMEs) from coordinated market economies (CMEs) in these areas are well known and can be summarized succinctly. Whereas industrial relations systems in LMEs are characterized by decentralized, uncoordinated collective bargaining and adversarial relations between unions and employers, CMEs feature highly coordinated bargaining and social partnership between unions and strong, centralized employer associations. Whereas LMEs are associated with highly stratified systems of education and training organized around the production of general (widely portable) skills, CMEs feature stronger systems of VET organized around firm- or industry-specific skills. Finally, whereas LMEs are characterized by fluid labor market regimes and weak employment protections, CMEs feature stronger employment protection and associated longer job tenures.

From the beginning, VofC theory challenged the idea that contemporary market pressures would drive a convergence on a single best or most efficient model of capitalism. The core argument holds that these two broad models represent different ways to organize capitalism. Each type operates on a wholly different logic and each does different things well, but both are durable even in the face of new strains. In contrast to earlier corporatism theories that explained the origins and reproduction of key coordinating institutions (such as centralized bargaining) with reference to labor strength, VofC scholars explain this resilience with reference to differences in employer organization and interests in LMEs and CMEs (Hall and Soskice 2001). They suggest that in CMEs employers themselves have a stake in the survival of the institutions that distinguish these political economies from the liberal model; having organized their production strategies around these institutions, firms now rely on them for their success in the market. This logic offered a reassuring picture for those who might otherwise worry about breakdown of the institutions characteristic

<sup>1</sup> On collective bargaining, see, for example, Michael Wallerstein's (1999) classic analysis of centralization and wage equality. On skills and training, see Streeck (1991) and Acemoglu (e.g., Acemoglu 1998); and on labor market policy and inequality, see the recent OECD reports (e.g., OECD 2008, 2011a).

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of CMEs, which are also widely seen as supporting what some observers have called a “gentler” form of capitalism than that which prevails in the alternative “cutthroat-capitalist” LMEs (e.g., Bohle and Greskovits 2009: 355; Acemoglu et al. 2012).

These predictions have not gone unchallenged. Economic turmoil of the last two decades has set in motion a vigorous debate in the political economy literature. On one side of the debate stand representatives of a powerful liberalization thesis (see especially Streeck 2009; also Howell 2003; Glyn 2006). These authors perceive in contemporary developments an erosion of the arrangements that have distinguished coordinated political economies in the past. As evidence, they can point to the massive changes in global finance that have in many cases released banks from the systems of “patient capital” that were once seen as foundational to the CME model (Höpner 2000; Höpner and Krempel 2003). They note that employer pressures for greater flexibility in other arenas, notably collective bargaining, have had a corrosive effect on coordination and social solidarity (Hassel 1999; Baccaro and Howell 2011). They cite ongoing fiscal strain and relentless pressure on governments to cut costs and relax “restrictive” labor market arrangements that have long offered protection to the weaker segments of the workforce (Trampusch 2009; Streeck 2010; Streeck and Mertens 2010).

These scholars emphasize the commonalities rather than the differences across capitalist countries, particularly with respect to the overall direction of change in LMEs and CMEs alike. Behind this diagnosis is a very different, less benign view of employer interests. In this perspective, employers everywhere seek to extend the reach of the market. The only thing that distinguished the CMEs in the past was that – for various historically contingent reasons – society had been able to resist efforts on the part of capitalists to break free from the political constraints imposed on them. For these authors, globalization and the attendant decline in organized labor’s power, as well as the resurgence of neoliberal ideology, bode very ill for the future of coordinated, egalitarian capitalism.

By contrast, defenders of the classic VofC perspective see the divergent institutional arrangements characteristic of LMEs and CMEs as relatively robust and resilient. They point out that the institutional differences between the two models of capitalism have deep historical roots (e.g., Iversen and Soskice 2009; Martin and Swank 2012). As such, these systems have survived all manner of crises (economic and political) over the past century, which were every bit as daunting as today’s challenges. Scholars in this camp do not see the institutions of coordinated capitalism as a straightforward product of labor strength against capital; they refer instead to historical research that suggests that many of these arrangements were forged out of cross-class coalitions in which employers were key co-architects (Swenson 1989; Mares 2000; Martin 2000). Clearly, scholars in this camp acknowledge current, ongoing changes in these political economies. However, true to the original anti-convergence theme

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at the heart of the theory, VofC scholars also tend to insist that most of these developments do not undermine the core logic that separates CMEs from LMEs (Hall and Gingerich 2009). VofC scholars are thus more likely to code observed changes as modifications or adjustments that do not undermine coordination and may in fact be necessary to stabilize it under new prevailing conditions.

At some point, the debate typically devolves into a disagreement on whether the glass is half empty or half full, or sometimes simply into a dialogue of the deaf. As useful as the broad categories of LME and CME have been for other purposes, they present some impediments to exploring the dynamics of contemporary institutional changes as they are unfolding, especially – although by no means exclusively – in the CMEs. A core problem is that the debate as it is currently structured is not equipped with analytic categories that can capture relevant changes that, while not necessarily signaling a breakdown of coordination, do indeed involve some rather consequential shifts from more solidaristic to distinctly less egalitarian forms of coordination (Thelen and Kume 2006; Thelen 2009). To the extent that the changes taking place in many advanced industrial countries involve a combination of relatively stable coordination and declining solidarism, we must confront head on the possibility that a high level of employer organization – while quite possibly still a necessary condition for continued social solidarity within CMEs – is by no means sufficient to guarantee its perpetuation. In this case, models of change built up around a one-dimensional continuum that runs from coordinated to liberal are going to miss the most important changes in the current period.

Moreover, for all their differences, defenders of the VofC perspective and their critics tend to agree on one central point: the best way to preserve egalitarian capitalism is through a vigorous defense of the institutions that have traditionally anchored coordinated capitalism. The empirical analysis presented in this book calls this bedrock conventional wisdom into question. An analysis of developments in the three political-economic institutions under examination here reveals that the successful defense of traditional arrangements has often been a recipe for institutional erosion and dualization, associated with dramatic increases in inequality. Conversely, it turns out that in these areas some varieties of liberalization are quite compatible with continued strong social solidarity and high levels of equality. In short, for the institutions under analysis in this volume, not every coordination-preserving move has solidarity-enhancing effects; and perhaps more counterintuitively still in the context of current debates, not every liberalizing move compromises social solidarity.

This book thus attempts to understand the types of political-economic institutions that support broadly egalitarian outcomes in the sense of a relatively equitable distribution of jobs and income and relatively high levels of economic security for the most vulnerable groups. While building on insights from the VofC literature, I demonstrate what can be gained through two innovations that can advance our understanding of current trajectories of change and their likely implications. First, I argue that recent developments call for

greater conceptual clarity to disentangle two phenomena that have come to be unhelpfully conflated in contemporary debates, namely coordinated capitalism and egalitarian capitalism. Second, and based on the conceptual discussion, I propose a new framework that can take us beyond the usual dichotomy between coordinated and liberal market economies and allow us to distinguish among divergent trajectories of liberalization driven by very different political dynamics and associated with different distributional outcomes.

Both these analytic moves flow from an understanding of institutional resilience and change that is explicitly linked to an analysis of the political coalitions on which economic institutions rest. Elsewhere I have argued that institutions do not survive long stretches of time by standing still or even through the faithful reproduction of the founding coalition on which they were originally premised (Thelen 2004). As the world around these institutions shifts, their survival depends on their active ongoing adaptation to the social, political, and market context in which they are embedded. Viewing contemporary developments through a political-coalitional lens, my analysis also explains why it is that the institutions of coordination that most faithfully reproduce the politics of the Golden Era of postwar capitalism of the 1950s and 1960s are sometimes the ones most vulnerable to institutional erosion and decay, while those that remain most robust are those whose form and functions have been reconfigured under the auspices of support coalitions that are in some respects quite different from those of the past. The next sections lay out each of these points one by one.

#### VARIETIES OF CAPITALISM AND ITS CRITICS

Virtually all political economists agree that industrial relations, VET, and labor market policy are centrally important to defining distinct models of capitalism. However, there are huge disagreements over how to interpret the trends we observe in these three areas. In some cases, the dispute is mostly empirical, rooted in an emphasis on different variables or measures (for an extended discussion, see Thelen 2012). From some perspectives and by some measures, the traditional institutions of coordinated capitalism appear quite stable, whereas from other angles and by other measures, they are undergoing dramatic change. Take industrial relations institutions. Centralized bargaining arrangements in most CMEs have exhibited considerable durability in the face of new pressures over the past three decades, defying previous predictions that they would collapse in the face of an employer offensive (Kapstein 1996; Katz and Darbishire 1999; Martin and Ross 1999). Formal bargaining structures, and industry-level bargaining in particular, have instead proved remarkably resilient. However, collective bargaining coverage (i.e., the number of workers whose employment relations are governed by collective contracts negotiated at the industry level) has shrunk in many countries, and the contents of central contracts almost everywhere have become more flexible than before. In such cases,

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formal-institutional stability in the level at which bargaining occurs may be masking significant change (Thelen 2009, 2010).

Disagreements between VofC proponents and their critics cannot necessarily be settled with more data or better measures, for it turns out that scholars on different sides of this debate are in fact often looking for change on wholly different dimensions (Höpner 2007). As mentioned earlier, the VofC literature usefully directed our attention to the importance of employer coordination as a core underlying feature distinguishing liberal from coordinated market economies. The key difference is whether employers are capable of strategic coordination among themselves and with labor in order to achieve joint gains through cooperation (CMEs) or not (LMEs) (Hall and Soskice 2001: 8). Following this lead, a good deal of the literature on stability and change has been organized around evaluating how well employers' coordinating capacities are holding up. For example, based on a comprehensive statistical analysis of various aspects of coordination across the full range of advanced industrial democracies, Hall and Gingerich (2009) find that despite some changes, there remains a very pronounced gap between LMEs and CMEs.

VofC critics are unlikely to be impressed by this, not necessarily because they dispute the empirics but because they are not interested in employer coordination at all, but rather in distributional outcomes like income inequality and other measures of social solidarity. Liberalization theorists point to what they see as an all-out employer offensive against organized labor, expressed in a relentless, across-the-board drive for more flexibility, while a related critique mounted by dualization theorists locates the source of new inequalities in a hardening of the line between labor market insiders and outsiders – employed versus unemployed, or those in “standard” full-time jobs with benefits and those in various “atypical” employment relationships.

These differences in vantage point are obviously rooted in wholly different intellectual and disciplinary traditions. The VofC framework comes out of an economic perspective that is concerned primarily with the effects of institutions on economic efficiency, hence the focus on what (following Streeck) we can think of as the “Williamsonian” functions of institutions (i.e., institutions as mechanisms through which firms can achieve joint gains through cooperation). Skeptics often come out of a more sociological or political frame of reference, and are thus really assessing something else entirely – namely, the solidarity-enhancing effects of institutions, or their “Durkheimian” or “Polanyian” functions (i.e., institutions as mechanisms that promote social cohesion).<sup>2</sup> Such differences can contribute to “glass half-empty, glass half-full” dis-encounters because it is possible for firms to benefit from continued coordination with each other over some issues and for some employees, even while the number of workers encompassed by these arrangements declines. In such cases, VofC

<sup>2</sup> I am indebted to Wolfgang Streeck (2009) for this distinction.

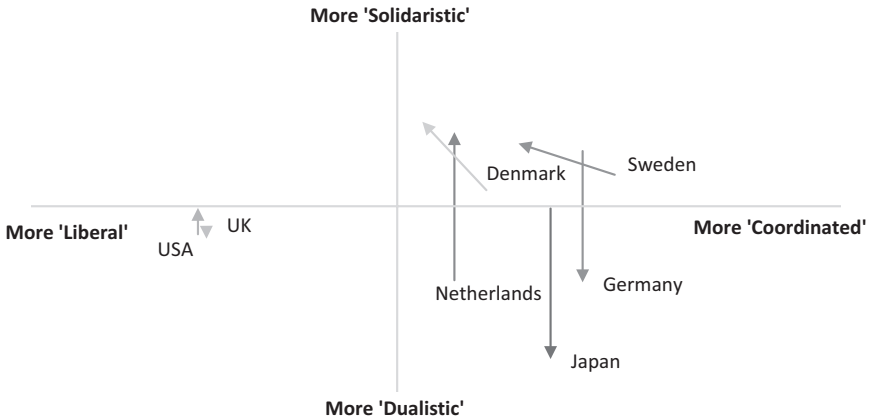


FIGURE 1.1. Trajectories of Change, Selected Countries, 1980s to Mid-/Late 2000s

scholars will see continued relatively robust employer coordination while skeptics will stress the inequalities that result from declining coverage.

Figure 1.1 clarifies this point visually, albeit in a highly stylized fashion.<sup>3</sup> It tracks the relative movement of several key countries in a two-dimensional space based on measures that tap into the concepts around which the literature is organized. The x-axis captures changes on some of the variables that VofC scholars conventionally invoke to distinguish between liberal and coordinated market economies with respect to labor outcomes. It is based on an index composed of three measures: the power of peak employer organizations, labor-management coordination, and wage coordination.<sup>4</sup> The y-axis, by contrast, tracks relative movement with respect to some of the outcomes that VofC critics have identified, focusing especially on variables emphasized by students of inequality. This solidarity/dualism dimension is based on an index composed of three variables: (1) collective bargaining coverage, which captures the reach of the agreements achieved in the context of coordinated bargaining; (2) involuntary part-time employment as a measure of irregular or atypical employment; and (3) youth unemployment as a measure of the extent to which some groups are simply excluded from the labor market altogether.<sup>5</sup> In short, while the x-axis taps the issues of interest to VofC scholars on the extent of

<sup>3</sup> I am indebted to Martin Höpner (2007) for this depiction of the issue. In his own work, Höpner draws a different, though related, distinction between “distributive” and “regulatory” liberalization.

<sup>4</sup> All data are courtesy of Duane Swank. Power of peak employer associations is based on the Golden-Wallerstein-Lange index (scores range from 0–4); labor-management coordination is based on an index devised by Kenworthy and Hicks; and wage coordination is based on Kenworthy’s five-point index that ranges from plant-level negotiations (1) to binding confederal-level bargaining (5).

<sup>5</sup> All based on OECD data. See the appendix for specifics of the index.



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employer coordination, the y-axis captures issues of interest to VofC skeptics with respect to the encompassingness of these arrangements.

This picture – admittedly crude – makes it easier to see why VofC scholars and their detractors have such different views of stability and change. While Germany and Japan remain stable on the VofC dimension, this has not prevented them from moving strongly toward higher levels of dualization. By contrast, Sweden and Denmark managed to maintain high – even slightly increasing – levels of social solidarity (conceived in terms of coverage/encompassingness), despite some formal-institutional liberalization. For reasons to be explored in detail in chapter 5, the Dutch case stands out as moving against the grain and toward higher levels of social solidarity, at least for this period and by these measures.<sup>6</sup>

#### DISENTANGLING THE RELATIONSHIP BETWEEN COORDINATED AND EGALITARIAN CAPITALISM

The observations in the preceding section call into question conventional understandings of the relationship between coordinated capitalism and egalitarian capitalism. In fairness, the original VofC volume by Hall and Soskice (2001) was not designed to explain equality; instead, it sought to explain different patterns of economic specialization and associated institutional choices or complementarities. However, a good deal of subsequent work has conflated the phenomena of coordination in the VofC sense with egalitarian outcomes, a convention well captured in recent work that distinguishes between “cutthroat” (liberal) and “cuddly” (coordinated) capitalism (Acemoglu et al. 2012). Empirically, these two phenomena – coordinated capitalism and egalitarian capitalism – seemed to coincide in what might in retrospect be thought of as the Golden Era of postwar capitalist development beginning in the 1950s. However, they are analytically distinct, and historically by no means accompanied one another. By most definitions, the German political economy could be seen as strongly coordinated beginning in the late nineteenth century, but as Hilferding (1910) and others clearly understood, this variety of capitalism could be associated with either progressive or deeply reactionary politics.

The debate as it has evolved, however, has mostly overlooked these issues and has therefore been played out in disagreements over how far liberalization has taken CMEs toward LME-type arrangements – thus effectively situating countries on a single continuum and reducing the question of change to movement along that continuum.<sup>7</sup> For example, the landmark volume by Kitschelt et al. (1999b) distinguished three broad political-economic types in which

<sup>6</sup> As discussed in Chapter 5, many of the previous gains in the Netherlands have suffered serious erosion since the mid-2000s as a result of the austerity politics of the center-right government.

<sup>7</sup> This continuum-based conceptualization of change is no doubt partly a function of the dichotomous categories around which the VofC framework was organized. However, it is also a function





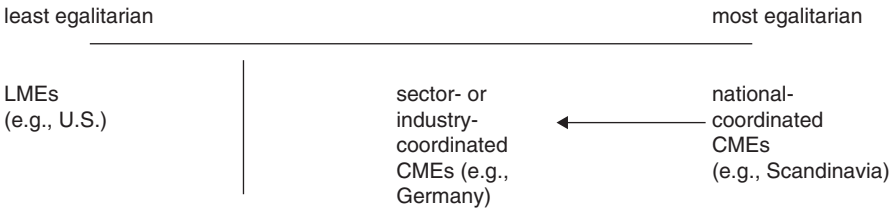


FIGURE 1.3. Hypothesized Direction of Change for National CMEs

and changing in ways that take them toward the less egalitarian Anglo-Saxon model. This line of argument is depicted in Figure 1.4.

However, as closely connected as the notions of coordinated capitalism and egalitarian capitalism came to be in the Golden Era of postwar development (and by extension in the minds of many scholars), nothing in the broader historical record suggests that the two necessarily go together. The origins of many of the institutions that define the CMEs can be traced back to the early industrial period (Crouch 1993; Streeck and Yamamura 2001; Thelen 2004; Iversen and Soskice 2009; Martin and Swank 2012), but clearly these institutions were not designed to promote equality. Their effects on social solidarity had, rather, to do with variation over time in the scope of employer coordination and the purposes to which these coordinating capacities were put.

Neither of these variables is solely a matter of institutions per se, but instead of the political coalitions on which these institutions rest – and this is something that can and does change over time. To give an example, coordinating capacities with respect to worker training in Germany were first established in the artisanal sector. What we could call their solidarity-enhancing side effects grew as the system expanded in scope, first to encompass the machine industry and later to be imposed as a national model to which virtually all youth had access. Conversely, as the reach of the coordinated training system in Germany began to shrink in the 1990s, the result was a rationing of apprenticeships within the still-coordinated system. Previously broad access to training had many solidarity-enhancing effects – above all, providing an avenue through which working-class youth could move into secure and well-paid jobs, especially in manufacturing. In the 2000s, however, increased rationing of access to training fueled new kinds of inequality because those who failed to land



FIGURE 1.4. Hypothesized Direction of Change for Sectoral (Industry) CMEs