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The Evolution of Bargaining under Austerity

Political Change in Contemporary French and German Labor-Market Reform

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Abstract

This paper examines the relationship among economic context, political institutions, and the political dynamics of adjustment within national models of capitalism through an analysis of recent labor-market reform in France and Germany. It argues that a climate of economic austerity since the 1970s, combined with the political legacies of earlier policy-making models and their failure to confront the challenges of slow economic growth and high rates of unemployment, have led to qualitative shifts in the incentives facing government officials and key interest groups. These shifts have produced new patterns of politics – "competitive interventionism" in France and "conflictual corporatism" in Germany – within generally stable formal institutional configurations. The paper explores the implications of the French and German experience for scholarly understandings of policy making in advanced industrial societies in a climate of economic austerity and how it differs from policy making under conditions of prosperity. In light of this analysis, it calls for a rethinking of prevailing conceptions of the relationship between formal institutional structures and the dynamics of bargaining and state–society relations across varying economic and historical contexts.

Zusammenfassung

Anhand der Analyse der jüngsten Arbeitsmarktreformen in Frankreich und Deutschland diskutiert dieses Papier den Wandel nationaler Kapitalismusmodelle vor dem Hintergrund von wirtschaftlichem Kontext, politischen Institutionen und politischen Dynamiken der Anpassung. Im Kern wird argumentiert, dass sich die Präferenzen von Politikern und Repräsentanten der Interessengruppen verschoben haben. Diese Präferenzverschiebungen beruhen auf dem Klima wirtschaftlicher Austerität seit den 1970er Jahren, verbunden mit der Erblast früherer Politikmuster und deren mangelnder Fähigkeit, den Problemen langsamen Wachstums und hoher Arbeitslosigkeit gerecht zu werden. Daraus resultierten neue Politikmuster, die im Papier als „kompetitiver Interventionismus" *(competitive interventionism)* im Falle Frankreichs und „konfliktärer Korporatismus" *(conflictual corporatism)* im Falle Deutschlands umschrieben werden. Das Papier diskutiert allgemeine Implikationen dieser Befunde für das politökonomische Verständnis von Wirtschaftspolitik unter sich verändernden Randbedingungen. Insbesondere geht es dabei um das Verhältnis zwischen formalen institutionellen Konfigurationen und den Dynamiken politischer Aushandlung zwischen staatlichen und gesellschaftlichen Akteuren.

Contents

Introduction

The emergence of the so-called "new institutionalism" during the 1970s marked a watershed in the study of institutions in the comparative-politics and comparative-political-economy literatures, breaking from the functionalist approach favored by the behavioralism of the first two postwar decades.[1] One of the central insights of this work, now widely accepted among scholars of comparative politics but innovative at the time, is that national institutional configurations structure politics and policy trajectories in distinct ways, producing enduring approaches to conducting the business of politics.[2] Though with varying points of emphasis, scholars in this tradition have argued that the distribution of political authority among national political-economic institutions tends to produce relatively stable political relationships among key actors, such as trade unions, employers' associations, and government ministries, which lead to relatively predictable patterns of political interaction. According to this view, political dynamics are heavily influenced by "the distribution of power among the key social groups" (Hall 1986: 231–232), which defines the extent to which specific actors are able to influence policy.[3]

During the past three decades, which have witnessed the proliferation of studies of political institutions from a variety of analytical and epistemological perspectives, the approach that has followed most closely from the "new-institutionalist" tradition is what has come to be known as "historical institutionalism."[4] This diverse body of work has emphasized the enduring power of historical patterns of development to structure and configure contemporary politics and, accordingly, rejects predictions of convergence upon a narrow range of political-economic arrangements. The 1970s and 1980s witnessed the rise of two other competing traditions – "rational-choice" and "sociological" institutionalism (Hall/Taylor 1996). The former emphasizes how institutional contexts structure individual-level decision making and patterns of political interaction by presenting individuals with clear sets of incentives and payoffs. The latter, by contrast, focuses largely on institutions or social and/or cultural norms, treating institutions as contextual variables leading individuals and organizations to seek "to define and express their identity in socially appropriate ways" (Hall/Taylor 1996: 949). In a strand of work that borrows heavily from neoclassical economics, the earlier work of Douglass North

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1 As Robert Adcock points out, however, behavioralism was not as ahistorical – nor "new institutionalism" as revolutionary – as many scholars have argued. See Adcock (2007).

2 Classics in this tradition include Katzenstein (1985), Hall (1986), and Zysman (1983).

3 Such concepts as state "strength" and "weakness," prevalent in the resurgence of studies of the state in the 1980s and 1990s, reflected such an approach. See Migdal/Kohli/Shue (1994), and Evans/Rueschemeyer/Skocpol (1985).

4 Though it refers to an older intellectual tradition, the first and best-known systematic use of the term "historical institutionalism" can be found in Steinmo/Thelen/Longstreth (1992). For a discussion, see Adcock/Bevir/Stimson (2007: 279–80).

and scholars of the "new institutional economics" have shown how formal institutions structure political and economic behavior by creating "rules of the game," often in ways that are far from efficient but are relatively regular and predictable.[5]

Though these approaches provided essential correctives to the behavioralist approach, which tended to divorce politics from its historical and institutional contexts, one of their limitations derives from their focus upon enduring, and largely formal, institutions and their effects. This orientation has led scholars to see the "rules of the game" of politics as relatively stable and, therefore, as reliable predictive and explanatory guides to national patterns of policy making. Though studying institutional configurations in this way gives us a good idea of the formal distribution of political authority, it does not necessarily tell us (and at times even provides a very misleading image of) how that authority is exercised in varying national, historical, or economic contexts. The "rules of the game" of politics are often as much implicit as explicit, are subject to shifting interpretations by social and political actors, and therefore may change significantly over time, even in the absence of major changes in a country's formal institutional and/or legal structures.[6] Though the distribution of authority deriving from formal institutional configurations is a key determinant of patterns of political bargaining, these dynamics may also be heavily influenced by changing economic contexts, the legacies of past conflicts among key social and political actors, and political actors' shifting interpretations of their own interests, as well as those of their allies or competitors. In a way to which existing institutionalist analyses are relatively insensitive, economic contexts thus provide "lenses" through which interests are reinterpreted and may alter the ways in which political authority is (or is not) exercised, as well as the often shifting and informal coalitions that support or impede certain kinds of policy outcomes.[7]

This paper offers a conception of the influence of national political institutions on patterns of politics in advanced industrial democracies that privileges such contextual factors. It argues that shifts in economic context from prosperity to austerity drive changes in the informal political relationships and prevailing interpretations of political and economic interests facing key actors. In so doing, it seeks to explain how patterns of political bargaining, informed by both formal distributions of authority and shifting informal coalitions among key political actors, drive reform and economic adjustment.

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5 Whereas North's earlier work emphasized the effect of formal institutions on economic behavior, related work by Powell and DiMaggio has stressed their influence on political strategies and interests. See North (1990), and Powell/DiMaggio (1991).

6 To use an American football metaphor, even though the "rules of the game" have remained relatively stable, the "playbook" employed by key political actors has changed significantly, as have the ways in which that playbook is deployed.

7 In this respect, my approach significantly extends Pierson's (1996) insight that the politics of welfare reform are different from those of postwar welfare expansion. Whereas Pierson focuses upon how a changing policy agenda alters the relationship between the state and interest groups that have grown up around specific benefits, my concern is with how a shifting economic context alters the incentives and relationships among a wide array of political actors.

This approach entails both a broader and more dynamic conception of politics and the process of economic reform than that afforded by prevailing institutionalist scholarship, which tends to underestimate the influence of contextual factors and to privilege formal distributions of political authority as the determinants of bargaining dynamics and policy outcomes. By contrast to such work, this paper contends that the changing dynamics of politics flows in significant part from alterations in its *relational* and *interpretive* aspects, rather than merely from the (relatively inertial) distribution of authority expressed in formal institutional configurations or constitutional arrangements.

Such an approach shares much with what Peter Hall has called "systematic process analysis," in which small-N comparisons and historical analysis shed light on the dynamic relationships among political structures (Hall 2003). It places greater emphasis, however, on the contingent character of those relationships and their mediation by contextual and interpretive factors, which a focus on structural variables alone cannot illuminate. An analysis of recent French and German labor-market reform shows that shifts in the dynamics of national models of policy making tend to occur against a background of enduring economic crisis (indicated by high levels of unemployment and slow economic growth) and in the wake of earlier, failed attempts to manage adjustment, which discredit inherited arrangements and dominant actors within them. These shifts in bargaining dynamics are supported by durable changes in public opinion and political discourses that provide increasing support to liberalization and reform. Together, these factors drive actors' reinterpretations of their economic interests and reevaluations of their political strategies, and, over time, lead to the emergence of new reform coalitions and bargaining dynamics, often with profound effects upon policy outcomes.[8]

This paper develops this argument through an analysis of recent French and German labor-market reform, an area that has been marked by a high degree of policy activism and political conflict since the 1980s. During the postwar boom, French and German labor-market policy developed in ways that were broadly consistent with the two countries' prevailing patterns of national politics. In *dirigiste* France, labor-market regulation was dominated by the state, while in neocorporatist Germany the social partners were the predominant actors. Since the advent of economic austerity in the late 1970s, however, these patterns have changed, most dramatically within the past decade. In France, statism has given way to what I call "competitive interventionism," a pattern in which the state and social partners compete for dominance over both the reform agenda and the substance of policy outcomes. In Germany, by contrast, the decline of consensual gradualism, predicated upon a diffuse distribution of political authority, has yielded a model of what I term "conflictual corporatism," characterized by a much more influential, aggressive state and increasing conflict between governments and social partners. These shifts in bargaining dynamics have been particularly dramatic in

8 As I discuss below, this process of reconfiguration of dominant political coalitions is similar, though not identical, to what Thelen calls institutional "conversion." See Thelen (2004: 36), and Streeck/Thelen (2005: 26–29), for a discussion.

the area of labor-market policy due to the political salience of unemployment in Continental Europe, voters' perception of it as an index of officials' competence in managing economic adjustment, and, as a result, the high stakes of success or failure in promoting adjustment in this policy domain.

In the following section, I provide a brief assessment of existing institutional analysis and studies of institutional change for the purpose of understanding changing patterns of political interaction. I argue that understanding and explaining such changes requires careful attention to shifts in implicit, relational distributions of authority and to the effects of changing economic context upon key actors' interpretations of their political and economic interests, as well as to the shifting bargains and alliances that such perceptions underpin. I contend that the character of changes in prevailing bargaining dynamics will be mediated by existing institutions, particularly the discrediting of old arrangements in the wake of failed attempts at economic adjustment. This process of discrediting in turn leads to the development of new reform coalitions, as once-marginal political actors step in to exploit the loss of credibility and power by previously dominant actors and public perceptions of the exhaustion of older models. I then describe recent French and German labor-market reforms, highlighting the effects of changing economic contexts since the 1970s and shifts in associated political incentives and their effects on both prevailing political dynamics and policy outcomes. I conclude with a brief examination of the theoretical significance of the French and German stories and promising avenues for future research on political institutions and their role in governing economic adjustment in advanced industrial democracies.

Politics, institutions, and the shifting dynamics of bargaining under austerity

The proliferation of "new institutionalism" in the 1970s built upon an innovative postwar literature on "national models" of capitalism. This approach argued that countries' trajectories of postwar growth were driven by unique institutional configurations and the policy strategies that flowed from them. The seminal work in this tradition was Shonfield's *Modern Capitalism*, which described how Britain, France, Germany, and the United States devised novel political-economic institutions that replaced the penury and destruction of the war with prosperity and economic renewal (Shonfield 1969).

This scholarship departed from earlier, descriptive work on political institutions and rejected the premises of Parsonian structural-functionalism, an American synthesis of Weber and the neopositivist agenda of behavioralism in which "systems" rather than "institutions" were the central concepts (Hall/Taylor 1996: 937–38). By contrast, scholars such as Shonfield demonstrated that modern capitalist economies were based upon distinct national configurations of political and economic institutions which yielded enduring, and relatively predictable, patterns of political interaction. For Shonfield and his intellectual heirs, it was the enhanced role of public policy that placed institutions at the center of analysis, as authorities across Western Europe developed new and powerful institutions with which to transform and guide their economies. Indeed, for Shonfield, it was not merely the case that "modern capitalism" was characterized by a "vastly increased influence of the public authorities on the management of the economic system" (Shonfield 1969: 66), but that the essence of the postwar order was largely *defined* by this influence.

This perspective directed scholars' attention to the new distributions of power among revamped political-economic institutions and led to the assumption that relationships among key political actors and their respective influence over policy outcomes would flow from that distribution. In France, for example, a highly centralized and powerful state apparatus gave rise to an insular process of economic planning, the exclusion of weak and fragmented trade unions, and the neglect of economic actors such as shopkeepers and small-business owners. In ways that were consistent with this institutional configuration, French economic policy was governed by a "conspiracy in the public interest" between the state and the powerful business groups that together served as the vanguard of a rapid and transformative process of industrialization (Shonfield 1969: 131). In Germany, by contrast, a "semi-sovereign" state and powerful producer groups gave rise to a consensual, gradual policy-making process in which the state was, at best, first among equals.[9] In both countries, however, the character of politics was thus seen to flow predictably from their respective constellations of political authority.

Though the work of Shonfield and the later "new institutionalism" that he helped to inspire provided critical insights into the varied character of national models of capitalism during the postwar era of rapid growth and full employment, it has proven less well-suited for understanding the climate of slowed growth and rising unemployment that has prevailed since the 1970s. When growth rates were high and few people were out of work, the exercise of public authority was considered to be, and often was, consistent with the public good. As the economies of Europe and the United States stagnated in the 1970s, however, the very institutional configurations that had been credited with postwar success would increasingly be blamed for their failure. As a result – and as the near-Revolution of May–June 1968 in France made clear – "weak" and marginalized political actors with little recourse to the official levers of power could exert significant influence over policy and politics, acting as members of negative coalitions that could transform the character of national political debates.

A second, more general limitation of the new-institutionalist paradigm derived from the fact that it was relatively static and insensitive to changes in political dynamics. Because one of its central insights was that the formal distribution of power and the manner of

9 The phrase "semi-sovereign state" is Peter Katzenstein's (1987) but is consistent with a broader literature on "consensual" German politics. See Manow/Seils (2000), and van Kersbergen (1995). For more sceptical interpretations, see Vail (2003); and Green/Patterson (2005).

its exercise were mutually consistent, this scholarship was poorly equipped to explain the exercise of other, less formal kinds of power, such as public protest, or to show how political actors' shifting interpretations of their economic interests might alter their political strategies. Though institutionalist scholarship has adopted a certain conception of political contingency, this conception has remained relatively thin and provided a limited understanding of the extent to which stable institutional frameworks can produce widely varying patterns of political interaction as economic contexts evolve.[10] The emphasis on "institutions as patterned relations" (Thelen/Steinmo 1992: 12), in other words, has tended to privilege the "pattern" over the "relation," thereby limiting its capacity to explain changes in relationships among political actors like those that have taken place in France and Germany. Recent work on path-dependence (for example, Pierson 2004) has provided an important theoretical rationale for this approach but, in the process, has further limited its sensitivity to shifts in political dynamics.

Other approaches to institutional analysis remedy some of these shortcomings but suffer from their own limitations for understanding evolving patterns of political bargaining. For example, rational-choice institutionalism shows "how institutions constrain the sequence of interaction among the actors, the choices available to particular actors, the structure of information, and the payoffs to individuals" (Weingast 2002: 661). Consistent with its kinship with neoclassical economics, this approach tends to see political interactions as the products of an institutionally-based environment of incentives in which the relevant actors seek to maximize their political or economic resources. Some work in this tradition, particularly scholarship in New Institutional Economics, does recognize that institutions and the decision-making context faced by political actors vary by place and time, that institutions create both formal and informal constraints on human behavior, and that the information available to political actors is necessarily incomplete (North 1990). More recent work in the rational-choice-institutionalist tradition has likewise backed away from earlier assumptions of fixed preferences and rational calculation independent of context, incorporating some of the insights of historical-institutionalist work by attending "more systematically to historical and institutional processes to better understand how actor preferences have been fashioned and how institutions have introduced biases or other distortions" (Katznelson/Weingast 2005: 6).[11]

That said, both new institutional economics and rational-choice institutionalism enjoy a limited ability to account for diachronic, systematic changes in national political dynamics. Even recent scholarship in this tradition continues to understate the degree to which political actors may be influenced by the history of their relationships with other actors or by shifting perceptions of their own and others' interests. More important, the centrality of rationality to such accounts and their assumptions about the avail-

10 The Varieties-of-Capitalism approach of Peter Hall and David Soskice (2001) provides a recent and stark example of the apolitical tendencies of this approach.

11 For an excellent, if complex, study of how economic incentives are mediated by history, see Greif (2006).

ability of relevant information limit their receptiveness to how the informal influence of particular political actors changes over time, often in ways that formal institutional configurations can neither predict nor explain. In both the French and German cases, policy-making dynamics have shifted in large part because of the failures of established modes of regulation and policy making to confront a new set of economic challenges. As these failures have discredited existing arrangements, historically weak actors have been able to gain influence over the policy-making process by presenting themselves as more credible agents for reform and exploiting public cynicism about older arrangements. Clearly, this pattern does not reflect a process in which actors rely exclusively upon their constitutionally-based levers of power according to calculations of rationality.[12]

An often overlooked but important body of work that has grappled with the relationship between economic context and political dynamics is the so-called "Regulation School." Regulationist scholars argue that capitalist economies and the institutional arrangements that underpin them vary from one stage of development to the next (Boyer 1990), leading to changes in the adjustment strategies of governments and their relationships with social and economic actors (Howell 1992: 9–10). Though such an approach points in fruitful directions for understanding this relationship, its emphasis upon the economic determinants of political-economic institutions leads it to underestimate the dynamic potential of political relationships within a given "mode of regulation." To the extent that such work does recognize the potential for political change, moreover, it tends to adopt a relatively functionalist understanding that sees both the structure of political institutions and the dynamics of politics as predictable outgrowths of underlying economic factors. Though this approach helps us to understand the structural relationship between economic context and institutional configurations, it offers little insight into how politics may change *within* such a context or into the political mechanisms through which such change occurs.

Recent work on institutional change in comparative politics and political economy has provided a more fruitful approach to understanding the relationships among changing economic context, shifting interpretations between key political actors, changing reform coalitions, and policy outcomes. In so doing, it has provided an important corrective for both the functionalist tendencies of the Regulation School and the overly static perspective adopted by traditional historical-institutionalist approaches. It recognizes multiple types of institutional change, which need not occur only at "critical junctures" of rapid transformation, but may instead take place gradually over time. Wolfgang Streeck and

12 The second influential alternative to historical institutionalism is the "sociological" variant, which shares much in terms of its approach to institutions with organizational theory (Powell/DiMaggio 1991, ch. 1). Whereas rational-choice institutionalism sees politics as the collective product of individual-level, and largely rational, decisions, this approach views political dynamics as the complex vector of evolving relationships that are reshaped by evolving economic and institutional environments. This approach recognizes the informal and contextual influences of institutions on political behavior and the fact that political dynamics should be understood as responses to a set of evolving social and economic contexts.

Kathleen Thelen, seminal authors in this emerging literature, see its central analytical purpose as exploring "*a wide but not infinite variety* of modes of institutional change that can meaningfully be distinguished and analytically compared" (Streeck/Thelen 2005: 1, emphasis in original). They seek to identify "incremental change with transformative results" (Streeck/Thelen 2005: 9), and to explore how "institutions can be transformed in subtle but very significant ways through a variety of specific mechanisms" (Thelen 2004: 35). For the first time, a significant body of work in the historical-institutionalist tradition has brought a systematic focus to bear on how and why institutions change and adapt, rather than merely on why they endure. In partial contrast to the Varieties-of-Capitalism approach, which sees political economies as characterized by long-term institutional stability (Hall/Soskice 2001), this work sees institutions as continually evolving, through "an evolutionary process that unfolds in an incremental manner and without major disruptions over long periods of time and resulting in profound change" (Goyer 2006: 402). The shifts in political coalitions and bargaining dynamics described in this paper echo Thelen's concept of "institutional conversion," or "the adoption of new goals or the incorporation of new groups into the coalitions on which institutions are founded [which] can drive change in the functions these institutions serve or the role they perform" (Thelen 2004: 36).[13]

This work provides an excellent starting point for such an analysis by loosening the relatively structured, formal understanding of the link between institutions and the purposes to which they are put, explicitly recognizing that "an institution's effects can occur without fundamental shifts in formal institutional structures" (Hacker 2005: 42), and acknowledging that "major change in institutional practice may be observed together with strong continuity in institutional structures" (Streeck/Thelen 2005: 18). That said, understanding changes in national-level political dynamics requires that we extend this approach. Its focus, as well as the outcomes that it seeks to explain, continues to relate to changes in particular policies and institutions, rather than the broader political dynamics that shape outcomes across a range of policy contexts.[14] In part, this limitation derives from the literature's focus on formal policies and institutions, an approach that is consistent with the traditional understanding of institutions in comparative politics as "the formal rules, compliance procedures, and standard operating practices that structure the relationship between individuals in various units of the polity and economy" (Hall 1986, quoted in Deeg 2005: 172), or as "regimes" governing the relationships between "rule makers" and "rule takers" (Streeck/Thelen 2005: 13–14). Accordingly, this approach tends to divert attention from how institutions can have varying *informal* effects on politics across different economic contexts and how actors' understandings of their own and others' political and economic interests can change, often in ways that

13 For an earlier, somewhat briefer formulation of the concept of institutional conversion, see Thelen (2003: 228–230).

14 Exceptions to the traditional emphasis on formal institutions can be found in recent work on Central and Eastern Europe, where political and economic arrangements are assumed to be more contingent and fluid. See Avdagic (2006) for an example.

are profoundly important for how the business of politics is conducted and the kinds of policy outcomes that it produces.

In the remainder of this paper, I explore recent reforms in French and German labor-market policy as a way of showing how such factors can reshape policy outcomes and the political coalitions behind them. I argue that a focus on formal distributions of political authority, consistent with venerable images of "statist" France and "neocorporatist" Germany, obscures important changes in political dynamics in the two countries. The shifting economic environment since the 1970s has reconfigured the economic and political incentives facing the state, trade unions, and employers' associations, as have these actors' dynamic *interpretations* of their interests in light of the legacies of past conflicts and policy trajectories. These changes have given rise to new political coalitions and patterns of political contestation that have led to policy outcomes that the "statist" and "neocorporatist" paradigms are unable to explain. Understanding recent changes in patterns of French and German political bargaining and the emergence of new coalitions in support of reform require an analysis of how the enduring economic and employment crises of the 1990s shifted prevailing discourses by discrediting older arrangements and engendering greater public support for new kinds of policy solutions. These case studies show that, even in the presence of stable formal distributions of political authority, the exercise of that authority can change and, in the process, significantly reshape reform trajectories.

The rise of "competitive interventionism" in French labor-market adjustment

By the late 1980s, an enduring climate of economic austerity and high rates of unemployment had placed labor-market reform at the center of French political debates. The previous decade and a half had witnessed economic stagnation that led to soaring unemployment rates, which reached over 12 percent in the mid-1990s. Once thought to be ungovernable if the number of unemployed exceeded a million, France in 2000 confronted 2.5 million jobless citizens, with sluggish growth offering little hope for future improvement. The state's failure to address France's most salient economic problem and the political legacies of the insular *dirigiste* model led to the emergence of a new model of labor-market governance. In the 1980s and 1990s, the combination of rising unemployment and the state's failure to confront it opened up political opportunities for it to assume a more important role in the policy-making process. In the 1995 presidential election campaign, Jacques Chirac famously promised to "heal France's social fracture," exhibited by the exclusion of large numbers of unemployed French citizens from the fruits of economic prosperity. Not only did Chirac's government fail to deliver on this promise, but rates of unemployment actually continued to rise, reaching nearly 12 percent by 1997 and apparently immune to the effects of renewed economic growth (La documentation française 2002: 48). As the state once again failed to revitalize the

French economy, voters grew increasingly impatient with the established model of statist labor-market regulation, particularly in the wake of high-profile layoffs by such mainstays of the French economy as Michelin and Moulinex.[15] By the late 1990s, the enduring employment crisis and shifts in public perception of the acceptable scope of reform, combined with a reevaluation by the government and social partners of their economic interests and political strategies, led to the emergence of a pattern of *competitive interventionism.* In this model of political bargaining, the state has remained an important player but has had to compete with the social partners in both setting the reform agenda and defining policy outcomes. Though characteristic of a number of other policy domains, these new dynamics have been most salient in the area of labor-market policy, due to the centrality of unemployment as a political issue and the social partners' institutionalized influence over the administration of policy in this area (Palier 2000 and 2002).

As France's continuing labor-market woes discredited the statist model, they reshaped the political incentives facing the state and social partners and led each of these key actors to draw different conclusions about their political and economic interests. Public demands on the state to address unemployment have led governments to seek out allies among France's producer groups, particularly employers, who must create jobs if unemployment is to be reduced. These demands, coupled with the state's tarnished image as a responsible economic steward, have given employers a political opportunity to push an agenda of labor-market liberalization and to exert a significant influence over the direction of policy making. Among moderate, reformist unions such as the CFDT, the priority has shifted from protecting benefits to reducing unemployment, in order both to increase their potential membership and to improve the job security of their existing rank and file. The result of these shifting priorities has been the emergence of a new, implicit reform coalition among employers, moderate trade unions, and officials in relevant ministries, all of whom have made reducing unemployment a top priority. Though they have often disagreed over the details of policy change, a consensus has emerged among them that reform is necessary, leading to a willingness to consider relatively liberal, market-conforming policy proposals, such as reductions in the generosity of unemployment benefits, that simply would not have been politically viable two decades ago. Indeed, when the CNPF, MEDEF's predecessor as the main French employers' organization, pushed for a similar program of liberalization in the 1980s, it only partially succeeded, and then only in the presence of a friendly center-Right government under Jacques Chirac. Ultimately, both the program of liberalization and employers' influence on policy were short-lived (Levy 1999: 66–69), largely because the state was still seen as primarily responsible for directing reform.

15 By 1997, only 54 percent of French citizens said that they were "satisfied" or "very satisfied" with their employment situation and the security of their job, a figure about equal to that of British citizens surveyed (57 percent) but much lower than the analogous figures for Denmark and Austria (70 percent). These figures reflect French voters' impatience with existing labor-market arrangements, despite the quite strict regulations on labor contracts and layoffs (La documentation française 2006: 92).

In the late 1990s, by contrast, the fact that high rates of unemployment had endured for so long, coupled with shifts in the interpretive frameworks of the state and social partners, led to a more structural change in the dynamics of policy making and the relative influence of key political actors. The development of this new model of labor-market policy making gained momentum in the late 1990s, when MEDEF launched its so-called *Refondation sociale*, or "Social Refoundation" campaign. This agenda involved liberalizing reforms in the areas of unemployment insurance, vocational training, health insurance, and pensions. In addition to influencing public debates and reform outcomes, the campaign also reflected MEDEF's attempt to combat what both employers and unions viewed as the government's excessive intrusion into labor-market policy, which MEDEF argued should be the exclusive purview of the social partners. In the words of then-MEDEF president Ernest-Antoine Seillière, "Of course, the state has social responsibilities, but that does not mean that it should carry them out in an authoritarian way, with sole regard to its own initiative" (Seillière 2000).[16] For Denis Kessler, the intellectual father of the *Refondation*, the campaign involved a "quest for rules" governing social dialogue and a correction of state dominance of a process that had been intended to remain within the shared purview of unions and employers (personal communication, 15 May 2002). The open battle over labor-market reform that launched MEDEF's *Refondation* was thus not merely a fight over policy content, it was also a conflict over the legitimacy of the government and the social partners and their respective roles in the policy-making process.

In 2000, the dynamics of a major debate over unemployment insurance reform provided a salient indication of the evolution of French policy-making dynamics, marked by increasing conflict between MEDEF and the government and the emergence of coalitions in support of reform. In an effort to accomplish a meaningful reduction in jobless rates that were still hovering around 9 percent, in June 2000 MEDEF and the reformist union CFDT agreed to limit access to benefits and to impose significant new obligations upon job seekers. The new measure, called the *Plan d'aide et de retour à l'emploi*, or PARE, made a person's benefits contingent upon a signed agreement with the national employment office to undergo a supervised job search (the *Projet d'action personalisé*, or PAP).

Because the management of France's unemployment insurance system is bi- rather than tripartite, the social partners were able to negotiate the original deal relatively free from direct state interference, though they still needed the government to ratify the agreement. Labor Minister Martine Aubry initially refused to do so, arguing that the state should retain the prerogative to determine benefit levels and bitterly resenting the social partners' arrogation of authority. After protracted negotiations, the conflict was resolved through Prime Minister Lionel Jospin's personal appeal to MEDEF's president. Jospin felt compelled to intervene personally in order to preserve the government's legitimacy as an agent of reform and, equally important, to keep MEDEF from leaving the

16 This and all subsequent translations from the French and German are the author's.

administration of France's social-security funds, which the association had repeatedly threatened to do if its priorities were not incorporated into the final reform. This would have been a major political blow to a government wishing to preserve the appearance of consensus over labor-market reform and to one increasingly vulnerable to criticisms that it was not doing enough to address unemployment. The government's acquiescence represented the growing influence of the social partners, whose mutual antagonism was overshadowed by their shared conceptions of labor-market reform and their distrust of the state that had both long excluded them from influence and failed spectacularly to reform France's labor market.

After 2002, the continuing erosion of the state's hegemony forced the center-Right administrations of Prime Ministers Jean-Pierre Raffarin and Dominique de Villepin to compete with the social partners over the direction of labor-market reform. In 2002–2003, Raffarin's government acted on a campaign promise to liberalize the previous administration's laws creating a 35-hour week, which had been imposed by the government with union support but had also included many initial concessions to employers.[17] Though Raffarin's reforms of these laws remained quite modest in the face of trade-union opposition, employers kept up the pressure for reform in other areas. For example, MEDEF launched an aggressive public campaign designed to compel the government to address the thorny issue of youth unemployment. This campaign resulted in an accord with the unions over reforms of the vocational-training system, on which observers have long blamed the high rate of joblessness among French workers under the age of 25 and which had languished for years without any substantive reform. This accord was folded into a May 2004 law that created an "individual right to training" in the hopes of creating a better match between workers' skills and employers' needs (Montalembert 2004: 57). Though not radical in its own right, this reform did reflect a broader shift in prevailing understandings of labor-market governance and the state's role in regulating it.

After taking power in May 2005, the administration of Prime Minister de Villepin battled with unions and employers over control of the agenda for reforming the labor market. The government's most controversial measure was the so-called *Contrat première embauche*, or "Contract for First Hires," which loosened restrictions for small and medium-sized enterprises on firing workers under the age of 26 in the hopes of spurring job creation. Though employers tepidly supported the measure, all major unions and many student groups vigorously opposed what they saw as a way of increasing the precariousness of employment. These groups organized a series of demonstrations in March and April 2006 that brought more than a million people out into the streets over a period of several weeks. Many demonstrations turned violent and resulted in dozens of arrests and significant property damage in Paris and other major cities. The scale of

17 The 35-hour laws were adopted under the Leftist government of Lionel Jospin in 1998 and 2000. Employers' protests centered on the government's impositional approach rather than the laws' substance, much of which they privately supported. See Vail (2005, ch. 5).

the protests and pressure from President Jacques Chirac eventually forced the Prime Minister to withdraw the measure, crippling him politically. Though different from the substantive influence of MEDEF and the CFDT in previous policy episodes, unions' capacity to channel public hostility to the CPE shows the constraints on state authority in a climate of economic austerity. In this way, the CPE's failure suggests that the pattern of "competitive interventionism" is not a partisan phenomenon, but rather characterizes a broader shift in the dynamics of French politics, irrespective of a government's ideological orientation.

This new pattern marks a major departure from the traditional dynamics of French statist labor-market governance. Rather than merely responding to government proposals – either with support or hostility – as in the past, French unions and employers are also taking the initiative in a wide range of policy areas, working both to shape the content of policy outcomes and to influence the reform agenda and the character of political debate. As the economic context has shifted during the past two decades, an emerging coalition among moderate unions and employers has been unwilling to leave the business of policy making to the state. At the same time, other, "negative" coalitions have arisen to block measures that the French electorate sees as fundamental violations of the French social contract. Though newly elected French President Nicolas Sarkozy has promised a new period of reform and far-reaching change in the French political economy, the government's ambitious agenda also promises to elicit strong reactions and attempts to influence the content of reforms by both unions and business. Gone are the days when the French state functions as the sole impetus for labor-market reform, and the CFDT and MEDEF, in particular, are likely to continue to exert a powerful influence over the character of debates and the substance of reform outcomes. Changes in both recent labor-market policies and the political bargains underpinning them are the cumulative products of a long period of gradual, incremental readjustment of a policy-making model to a new set of political and economic circumstances. Though France has not fully liberalized its labor market, it has undergone a paradigmatic shift since the 1980s, in terms of both the degree of public acceptance of partial liberalization and prevailing understandings of the state's role in the process.

As in France, the shift in economic context has also led to significant changes in the postwar model of politics in Germany, where the neocorporatist, consensual patterns of the 1960s have given way to a much more conflictual environment and a more influential role for the state. This change has been driven by both the failure of neocorporatist solutions to reduce unemployment (notably the ill-fated *Bündnis für Arbeit*) and a shift in the orientation of German governments, with the state adopting a much more assertive posture, devising reforms with limited input from either unions or employers, and even unilaterally implementing measures of its own devising. As in France, recent political conflict in Germany has been about more than the content of specific reforms. Equally at stake has been the implicit distribution of political authority and control over the reform agenda. As German policy makers have confronted slow growth and high unemployment, and the social partners have failed to manage the process of labor-market adjustment, the state has pushed through some far-reaching reforms that have both changed the character of the German labor market and reflected a broad and durable shift in the dynamics of German political bargaining. As I detail below, the emergence of the German state as a force for reform contradicts well-worn images of a consensual, gradualist Germany, with a "semi-sovereign" state that follows rather than leads.

"Conflictual corporatism" and the rise of the German state

Like its French statist counterpart, the German neocorporatist model was well suited to the postwar period of economic prosperity. The model was characterized by divided political authority, regularized patterns of negotiation among governments, unions, and employers, and broad agreement between the state, the social partners, and major political parties over key questions of policy. This system of shared political authority and responsibility was both supportive of and supported by the postwar climate of rapid growth, low unemployment, ample tax revenues, and moderately rising wages (Katzenstein 1987; Shonfield 1969; Thelen 1991). Unions and employers played central roles in administering labor-market policy, and governments rarely pursued major policy initiatives over the objections of major producer groups and the political opposition. Reforms tended to be incremental, both because agreement was sought from all key political stakeholders and because the climate of economic prosperity required little in the way of major policy change. In this way, economic prosperity reinforced the model's consensual, gradualist tendencies, based upon an institutional framework characterized by decentralized authority and multiple veto points.

The advent of austerity in the 1970s initiated, and the shock of German reunification greatly accelerated, changes in the system's political dynamics, as both policy makers and the social partners confronted an unprecedented disruption of the cozy postwar consensus. As unemployment rates and budget deficits ballooned in the 1990s, the public grew increasingly impatient with what was perceived as governmental hesitation and inaction. No longer able to reap equitable portions of a growing economic pie, unions and employers began to dig in their heels to defend their (increasingly mutually antagonistic) interests in the wake of economic decline, rather than working together to promote reform. As Germany's economic problems worsened, the social partners evolved, both in public perception and in reality, from conservative stewards of successful social-policy and labor-market arrangements into entrenched defenders of the status quo. Despite government efforts to encourage reform under the auspices of the Federal Labor Office, or *Bundesanstalt* (now *Bundesagentur für Arbeit* or BA), and to liberalize wage-setting procedures to promote job creation, the social partners failed to reform what had become deeply dysfunctional arrangements. Perhaps the clearest example of such failure was the ill-fated *Bündnis für Arbeit*, or "Alliance for Jobs," which was a loose tripartite forum that aimed to facilitate discussion among the social partners on labor-market reform. Little was accomplished by the organization, which was dissolved in 2003 after both the public and the government recognized the futility of pursuing reform through traditional tripartite channels and the unwillingness of the social partners to bargain in good faith over labor-market adjustment.

Recent German governments have responded to this political impasse and mounting public demands to address the country's economic woes by taking a much more aggressive role in formulating and implementing reforms. This shift away from neocorporatist gradualism and towards a more impositional style marked by growing political conflict was particularly evident under the Social Democratic administration of Chancellor Gerhard Schröder. Recognizing the failure of traditional tripartite labor-market regulation and frustrated by the social partners' failure to implement significant reforms of the labor market, Schröder's government introduced a number of significant measures, usually with limited input from either the social partners or the political opposition. Bypassing the regular channels of neocorporatist policy making, these reforms reflected a broader shift in authority away from the social partners and towards the federal government. Although the social partners have retained significant authority over German labor-market administration, the state began to punch its political weight, becoming a leader rather than a follower in the process of formulating and implementing reform.

The emergence of this pattern of "conflictual corporatism" began under CDU Chancellor Helmut Kohl but accelerated when Schröder took office in 1998. Having made the reduction of unemployment one of his central campaign promises, Schröder and Labor Minister Walter Riester launched a series of important initiatives that focused on the "rights and obligations" of the unemployed. Since the immediate postwar period, unemployment insurance, for which workers furnish 50 percent of the financing, had been considered a benefit paid for in advance and therefore owed as a matter of right. By contrast, both the rhetoric and the policies of the government suggested a new interpretation of the notion of economic "rights" that called this venerable sense of entitlement sharply into question.

One of the administration's early initiatives in this interventionist vein was the *JOB-AQTIV-Gesetz*, or law for "Job Activation, Qualification, Training, Investment, and Placement." This law mandated the restructuring of the BA's job-placement services and adopted an aggressive, contractual stance toward the unemployed in the hopes of cutting unemployment. Regional and local branches of the BA were ordered to create a personalized profile for each job seeker and to provide individually tailored counseling services. The unemployed were obligated to accept "reasonable" job offers and to make a sustained effort to find work. The law also introduced new vocational programs, expanded subsidies to encourage hiring, and instituted additional job-creation schemes (SPD und Bündnis 90/Die Grünen 2001).

The government's strategy also entailed a concerted effort to tackle the stubborn problem of youth unemployment, which, as in France, reflected a systemic failure to adapt to a changing economy and the emergence of a new occupational landscape.[18] The campaign was emblematic of the federal government's efforts to occupy the political space created by the failures of neocorporatist labor-market institutions. The keystone measure was the 1998 *Sofortprogramm zum Abbau der Jugendarbeitlosigkeit*, or "Immediate Program for the Reduction of Youth Unemployment" ("JUMP"), which created new training and apprenticeship instruments, introduced wage subsidies for firms that hire young workers, and reformed job-counseling services for young workers. The federal government provided the bulk of funding for the measure and was chiefly responsible for its administration and implementation, in contrast to the traditionally tripartite character of German labor-market administration.

The key role played by the state in implementing these reforms paralleled the increasing centralization of labor-market policy financing in the late 1990s and early 2000s. In 1999, the government financed a full 29 percent of the total cost of DM 150.3 billion (€76 billion) for *all* labor-market policies, compared to €16.2 billion in 1995. In 2001, it furnished an additional DM 1.2 billion (€614 million) to compensate the BA for the costs of the JUMP reform. During the same period, the BA's outlays for *active* labor-market policies also increased, by DM 44.1 billion (€22.5 billion) in 2001 despite a decline in the number of unemployed during the year. In 2002, the federal government supplied 29 percent of the BA's annual funding, more than a third of which was paid as a lump sum to cover the agency's deficit.[19] From 1998 to 2002, the government increased total funding for labor-market policies, while the share of funds spent on active labor-market policies rose from 34.6 percent to 43.6 percent (Bundesanstalt für Arbeit 2001: 9). Between 2003 and 2006, the federal government's expenditures on labor-market policies more than doubled, reaching a high of €38.7 billion, before declining slightly to €33.4 billion in 2007 due to renewed economic growth (Streeck 2007: 14).

Growing state intervention has also taken the form of the introduction of new labor-market regulations and the liberalization of existing ones, such as laws governing employees' rights to part-time employment. A January 2001 reform, for example, enabled employees unilaterally to convert their full-time jobs into part-time ones (OECD 2001: 69–70). This reform aimed to reduce unemployment by increasing the flexibility of labor contracts (M. Dörnmann, personal communication, November 23, 2000). While unions were pleased with the law, employers objected to what they saw as the state's intrusion into the domain of wage contracts, which the established principle of *Tarifautonomie,* or "free collective bargaining," had traditionally reserved to the social partners. For many, the Schröder government's intrusion in this area was typical of its "top-down" approach

18 Joblessness among workers under 25 reached 10.4 percent in 1998, 476,000 youth being without either jobs or apprenticeship places (Bundesanstalt für Arbeit 1999: 69, 72).

19 The federal government is required to cover the BA's deficit. Traditionally an exceptional measure for difficult years, this supplement had become a fixture by the late 1990s. Buoyed by accelerated economic growth and ongoing labor-market reforms, the BA is enjoying a surplus in 2007 for the first time in more than a decade.

and represented a threat to established models of social partnership (J. Kemme/V. Hansen, personal communications, 29 November 2000 and 25 May 2001).

One of the most telling examples of the new political dynamic came with the government's assumption of greater control over the BA in the wake of a series of scandals within the organization and its long-standing failure to reduce unemployment. In 2002, it was revealed that the BA had falsified its placement record in as many as 70 percent of cases, highlighting the ineffectiveness and self-serving character of traditional neocorporatist labor-market institutions. The scandal led to the resignation of BA President Bernhard Jagoda and inaugurated a period of major reforms of the agency's administration. In March 2002, the government created a board appointed directly by the federal government to govern the BA. It then shifted responsibility for formulating the future direction of labor-market reform from the BA to the newly established Hartz Commission. The Commission's recommendations also reinforced the growing role of the state in labor-market policy. For instance, it called for increased state funding for active labor-market policies, the development of state-run job agencies to promote more flexible employment, and reforms of the BA's placement services (Hartz 2002).

Between 2002 and 2005, the Red-Green coalition under Schröder intensified its efforts to revitalize the labor market with a series of reforms that went well beyond the relatively modest scope of the initial Hartz reforms. Collectively labeled "Agenda 2010," a far-reaching series of measures aimed to promote job creation by reducing non-wage labor costs, introduced further reforming job-placement and training programs, and liberalized regulations on shop opening hours and layoffs. In an effort to encourage the unemployed to find work, the reforms reduced the length of eligibility for primary unemployment insurance *(Arbeitslosengeld)* to twelve months for workers under age 55. Furthermore, unemployment assistance *(Arbeitslosenhilfe)*, paid to workers whose eligibility for unemployment insurance had expired was reduced to the level of *Sozialhilfe*, the basic German anti-poverty program. The reforms also liberalized protections against layoffs in Germany's smallest firms, loosened the country's notoriously strict laws on shop hours, and cut tax rates.[20] Agenda 2010 changed many aspects of the German labor market, and it did so with very limited input from either the social partners or the political opposition.[21] Though these reforms elicited sharp protests from significant segments of the population, and indeed led to massive protests in major German cities, they also both reflected and capitalized on broad public frustration with the parochialism of the social partners and failed attempts such as the *Bündnis für Arbeit* to accomplish reform through traditional neocorporatist channels. When asked in July 2003 if they supported the direction of the Agenda 2010 reforms, for instance, 59 percent of Germans agreed, with only 14 percent opposed (Institut für Demoskopie Allensbach 2003: 4).

20 Many Agenda 2010 reforms had been proposed by the Hartz Commission and were later subsumed under the broader aegis, which included proposals for reform in other policy areas.

21 They also sparked extensive public protests in 2004 and undermined the SPD's performance in the 2005 elections.

The current CDU-SPD “Grand Coalition” led by Chancellor Angela Merkel has struggled to maintain the reform momentum generated by the Red-Green coalition. Though their political credibility depends in large part upon their handling of the unemployment issue, the CDU and SPD have developed different conceptions of reform, and any resulting measures will probably represent the narrow middle ground between their respective priorities. The administration’s record to date has been mixed, with ambitious reform proposals resulting in relatively modest reform outcomes. For example, a widely touted health reform was diluted in response to opposition from doctors and the SPD, and tax reforms have been tepid at best, with the best known measure increasing the rate of VAT in order to reduce pressures on payroll taxes.

The paucity of ambitious reforms by the current administration, however, would seem to represent an anomaly in the recent pattern of growing state intervention that has resulted from the inclusion of both major parties in the government, rather than a qualitative change in the pattern itself. Once the current government (the only Grand Coalition since 1969) falls and new elections place one of the two major parties clearly in charge, the same economic pressures and political incentives that gave rise to the shift in policy-making dynamics under Schröder are likely to lead to a more impositional posture on the part of the state and intensified political conflict between the government and producer groups. Indeed, current battles within the coalition over the introduction of a minimum wage and expansion of long-term care benefits already point in this direction, with the SPD privately hoping to use the CDU’s ostensible intransigence on these questions as a major campaign issue in 2009 (Peter Jülicher, personal communication, June 19, 2007). Not only have reforms of the BA significantly eroded the social partners’ authority over labor-market policy, but public demands that the government reduce unemployment and the discrediting of the tripartite system of labor-market governance will provide few incentives for policy makers to revert to the older incrementalist pattern. As in France, the climate of economic austerity has shifted the incentives facing German governments and other key political actors, as well as their understanding of their own interests. These shifts have led to both a qualitative change in the dynamics of prevailing political relationships and a shift in the effective distribution of political authority, replacing the older model of consensual gradualism with a newer pattern of politics in which the state is punching its weight and the social partners have lost significant influence.[22]

22 The battle over the creation of a minimum wage during the summer of 2007 is a case in point. Though CDU opposition prevented the SPD from instituting a unified statutory minimum wage, the compromise reached between the SPD and CDU represents an erosion of the principle of *Tarifautonomie* and a significant intrusion of the state into the wage-setting process.

Conclusion: Institutional analysis and political contingency

Since the mid-1990s, both France and Germany have undertaken major reforms of their labor-market policies, with the traditional reliance upon "passive" policies such as unemployment insurance and early-retirement programs giving way to an emphasis on labor-market activation. This shift in labor-market strategy has entailed three major components. First, authorities have increased workers' incentives to seek out and accept available work. Second, they have promoted job creation by subsidizing employers and expanding state-financed employment schemes. Third, they have significantly liberalized labor-market regulations, such as restrictions on overtime and part-time and fixed-time contracts. In contrast to prevailing images of "frozen" and sclerotic continental labor markets incapable of confronting the challenges of globalization and economic austerity (for example, Ferrera/Rhodes 2000; Esping-Andersen 1996), French and German policy makers have actually been quite active in reforming their labor markets.

These changes in labor-market policies and institutions have been both sculptor and sculpture of shifts in the operating dynamics of the French and German political systems. No longer the paragon of statism portrayed by "national-models" scholarship, French politics has evolved into a more nuanced pattern of "competitive interventionism." In this new model, the state and social partners are each playing important roles in shaping the substance of policy and are competing for dominance of the reform agenda. Likewise, Germany has witnessed the erosion of the cozy political consensus among producer groups and the relatively quiescent state that dominated the boom period of the 1950s and 1960s. In its place has emerged a pattern of what I call "conflictual corporatism," involving a more aggressive state and an erosion of the traditional dominance of labor-market governance by unions and employers' associations. As the economic climate has darkened, the political incentives facing the state and the social partners have changed dramatically, as have their respective understandings of the imperatives of reform and the constellation of political and economic interests in which they operate. Over time, long-term mass unemployment has discredited the models of labor-market regulation inherited from the postwar boom and has led previously marginal actors to conclude that they stand to benefit politically and economically from policy activism. Supported by shifts in public opinion that are more supportive of reform and responding to mounting political pressures to reduce unemployment, the German state and French social partners have become more aggressive in pushing an agenda of labor-market liberalization supported by the deployment of significant public resources. At the same time, previously dominant actors – the French state and German social partners – can no longer credibly claim that their defense of inherited arrangements serves the public weal, and political payoffs are increasingly tied to their being perceived as responsible stewards of moderate reform. This shift in incentives and interpretations, driven in part by failed attempts at labor-market adjustment under inherited models, has in turn provided renewed impetus to reform and led to a reconfiguration of bargaining structures in the two countries.

These changes in labor-market strategies have led to broader shifts in the prevailing dynamics of policy making by supporting the emergence of new reform coalitions, which have replaced the traditional postwar alliances of business and the political Right, on the one hand, and unions and the political Left, on the other. As the prosperity of the 1960s gave way to the penury of the post-1970 period, these alliances, with common attitudes toward the market and capitalism (acceptance or enthusiasm on the Right, skepticism or hostility on the Left), have been replaced by coalitions of moderate unions, elements of the business community, and governments of the post-Marxist Left or moderate (but not neoliberal) Right. Prompted by the failure of salient promises of reform under older arrangements (the defunct *Bündnis für Arbeit* in Germany and Chirac's unrealized promises to heal France's "social fracture"), these actors have come together to promote reform and to defend their new understandings of their economic interests by remedying some of the employment traps in the two countries' Bismarckian systems of welfare capitalism, even as they have sought to benefit politically by exerting greater influence over the reform agenda and by painting themselves as agents of reform rather than defenders of the dysfunctional *status quo*. Though incremental when considered individually, over time, these changes in the policies and politics of the French and German labor markets have amounted to quite significant shifts in both the style and substance of labor-market governance in the two countries.

The failure of contemporary scholarship to recognize such shifts in national political dynamics derives from a long-standing emphasis in comparative political economy on the effects of formal institutional arrangements. From such a perspective, the broad stability of postwar political institutions in the advanced industrial world leads to an expectation of stability in macro-political relationships, even if these dynamics may vary episodically. Though ideal for analyzing the politics of an era with a consistent set of challenges, this emphasis on formality and continuity is less well-suited for analyzing the varying political dynamics that such institutional arrangements can produce as economic contexts change. Because they focus largely on the effects of formal institutions, "historical" and "rational-choice" institutionalist scholars alike tend to overlook the effects of contextual changes on national political dynamics.

To be sure, this emphasis on formal political institutions and the associated "rules of the political game" has long been a source of analytical power in comparative political economy. Since the 1960s, scholars have identified the institutional features of the "national models" of capitalism that were responsible for creating a period of unprecedented economic prosperity and dynamism. Their doing so has enabled a generation of scholars to highlight the enduring diversity of national political-economic arrangements in the face of the challenges of globalization and economic austerity (Berger/Dore 1996). Nonetheless, the postwar models were not eternal, but rather were creatures of the postwar climate of prosperity and the challenges specific to it. Though their formal contours have remained fairly stable since the 1970s, the operating dynamics of these models have changed in ways that a focus on formal institutional arrangements alone cannot uncover.

Much existing work on political institutions has tended problematically to assume that actors' political strategies can be deduced from the formal, constitutional characteristics of the political system.[23] Even recent work that has analyzed institutional change has underestimated the extent to which new economic and political contexts can reshape prevailing bargaining patterns (cf. Hall/Thelen 2005). This paper has shown that the forces molding political relationships are more complex and changeable than many scholars recognize. As Douglass North has pointed out, both formal and informal constraints "together define the incentive structure of societies and … economies." Over time, these different incentives reshape the "mental models of the actors [which] shape choices" (North 1996: 344, 353). In the case of French and German labor-market reform, a changed economic environment and the legacies of past politics have altered governments' and producer groups' understanding of both their political and economic interests and of the legitimacy and credibility of both themselves and their interlocutors. Both changing interests and changing interpretations, in other words, have reshaped the coalitions that underpin national political dynamics.[24] Though these changes in key actors' interpretations of their political and economic interests and the coalitions that such interpretations underpin have been significant, they have not led to the dismantling of existing political institutions, a fact which suggests that some elements of these arrangements may be quite durable, despite dramatic shifts in economic context.[25] Identifying changing patterns of bargaining thus offers a challenging agenda for future research on how economic context and interpretations of interests can reshape reform coalitions across national and policy contexts.

23 Even recent attempts to loosen the prevalent understanding of institutions so as to introduce a greater degree of dynamism retain much of this emphasis on formal policies and institutions. See, for example, Hall/Thelen (2005).

24 Culpepper (2005) has recently called for such an "interpretive" turn in comparative political economy. His concept of "joint belief shifts," denoting a situation "when … central strategic actors within the system are persuaded, collectively, that their old cognitive maps are wrong and that they need to devise new ones," suggests the need to look at political relationships as evolving patterns rather than merely at formally structured differentials of power.

25 I am indebted to Michel Goyer for this observation.

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