

# PRESIDENTIAL ADDRESS

SASE Annual Meeting 2009, Paris, France

## Economic regulation and social solidarity: conceptual and analytic innovations in the study of advanced capitalism<sup>†</sup>

**Kathleen Thelen**

*Massachusetts Institute of Technology, Cambridge, MA, USA*

*Correspondence: kthelen@mit.edu*

**Keywords:** capitalism, regulation, institutional political economy, institutional change, history, methodology

**JEL classification:** P1 capitalist systems, P16 political economy, N4 government, regulation

The title for this year's SASE conference, 'Capitalism in Crisis: Economic Regulation and Social Solidarity after the Fall of Finance Capitalism', reflects the turbulent times in which we find ourselves. Policymakers struggle to respond to rapidly unfolding developments, while academics assess how well their theories capture those features of the contemporary situation that best reflect the choices these actors confront. Contemporary developments pose a special challenge for institutionalist theories of political economy since many of the institutional arrangements on which our explanations of cross-national policy differences are based are themselves in flux.

The most widely used framework in the literature is that proposed by Peter A. Hall and David Soskice in their influential volume *Varieties of Capitalism* (2001). The framework they lay out is based on national models defined by

---

<sup>†</sup>This is a companion contribution to the lecture I delivered at the London School of Economics in November 2008, which was published subsequently in the *British Journal of Industrial Relations* as 'Institutional Change in Advanced Political Economies' (Thelen, 2009). I thank Duane Swank for sharing his extensive data set, on which some of the figures were based, and Kate Searle for compiling the figures.

strong institutional complementarities across the various institutional arenas (industrial relations, finance, training, corporate governance) that together define distinctive models of capitalism. The theory emphasizes the constitutive power of institutions in shaping the strategies of key political-economic actors, particularly employers, and sees powerful feedback loops at work that sustain distinctive trajectories of development cross-nationally even in the face of common challenges. While many scholars credit the varieties-of-capitalism (V-of-C) framework with providing a persuasive explanation for institutional stability, even sympathetic readers sometimes fault it for lacking an explicit and fully elaborated account of how and when institutions change and evolve over time.<sup>1</sup>

A persuasive theoretical account of institutional change is sorely needed at present, since it is widely recognized that many of the core institutional arrangements that characterize the political economies of the rich democracies are under indisputable strain and in some cases have become the object of explicit reform efforts. Many observers see in these changes a pervasive shift towards 'liberalization' (Howell, 2003; Streeck, 2009). This is by no means an unreasonable interpretation; clearly, calls for greater 'flexibility' and for less regulation lie at the heart of much of the current reform rhetoric, whether the arena in which such reforms are being demanded is industrial relations, corporate governance or social policy. For many scholars, the rhetoric and the changes associated with it challenge the V-of-C framework at its core, by undermining the distinction on which the framework is premised, the distinction between coordinated market economies (CMEs) and liberal market economies (LMEs).

For defenders of the V-of-C perspective, the typical (again, not unreasonable) response to this consists of a defence of the core CME–LME distinction (e.g. Hall, 2003). Although acknowledging the importance of current reform initiatives, defenders of the V-of-C framework are likely to point out that the distance between the liberal and coordinated models of capitalism remains rather pronounced on many dimensions (Hall and Gingerich, 2009). Moreover, some of the institutions that anchor the coordinated model survive not so much through inertia or even through successful labour defence, but instead reflect a rather different set of politics and preferences than one finds in the liberal economies (e.g. Callaghan, 2009, on corporate governance). If the reactions of Sarkozy and Merkel to the recent financial meltdown are to be trusted, it appears that even conservative politicians in Europe are not very interested in seeing Anglo-Saxon 'cowboy capitalism' take root in their countries (Financial Times Deutschland, March 28, 2009).

In short, where some observers see the breakdown or erosion of arrangements that distinguish coordinated from liberal capitalism, others see more benign

---

<sup>1</sup>However, see Hall and Soskice (2003) and Hall (2007) for a response to these criticisms.

adjustments that do not undermine coordination and may in fact be necessary to stabilize it under new prevailing conditions. How can we prevent the debate from devolving into a dialogue of the deaf? This article suggests the need for more fine-grained analytic tools for evaluating the extent, direction and the meaning of contemporary changes in advanced capitalism. I advocate for three innovations that I think are important in advancing our understanding of current trajectories of development and their likely implications. In particular, recent developments call for (a) *conceptual innovations* that can take us beyond the kind of formal institutional analysis that has traditionally dominated the literature in comparative political economy, (b) *analytic innovations* that can transcend the powerful but also ultimately limited dichotomy that draws only a broad distinction between ‘coordinated’ and ‘liberal’ market economies, and (c) *historically informed empirical research* that situates contemporary developments on a broader temporal canvas that reaches further back than the usual 1980s baseline and that can therefore generate a deeper understanding of the institutional transformations we observe today. There are clearly no guarantees that these conceptual, analytic and empirical ‘moves’ will bring consensus; however, they are crucial for pinpointing the sources of disagreement and identifying the kinds of empirical studies that might serve to resolve them.

## 1. Beyond traditional formal institutional analysis

Political-economic institutions in the most developed democracies are under indisputable strain, but one of the reasons that scholars can continue to disagree so sharply on the significance of contemporary trends is that new tensions often coexist with truly remarkable stability in the formal institutional arrangements that separate so-called coordinated market economies from liberal market economies.

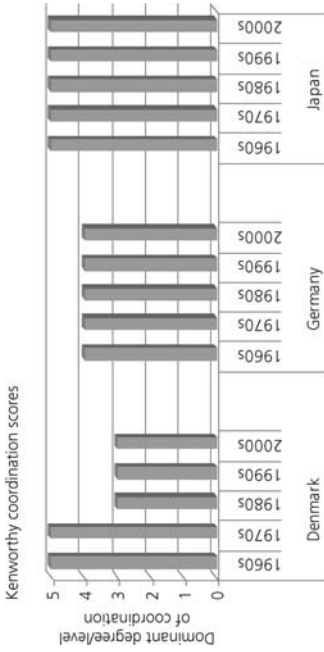
Take the case of industrial relations institutions, clearly the site of a host of new pressures associated with the rise of the service sector as well as with intensified market competition from lower wage producers in manufacturing. It is well known that such trends have intensified conflict in the CMEs between unions and employers, as the latter seek greater flexibility through a retreat from uniform, national standards in favour of local bargaining on issues such as wages, working times and work organization (see, among others, Ferner and Hyman, 1998). These pressures, often combined with stubbornly high levels of unemployment, have been widely seen as posing a serious threat to centralized bargaining arrangements. Whereas in the 1970s employers in CMEs were willing to support centralized wage setting as a means to achieve wage restraint in the context of near-full-employment, subsequent high unemployment (and heightened levels of capital mobility) was expected to allow

employers to dispense with negotiated wage restraint, and leave it to the market to hold wages down. A significant literature in the 1990s, therefore, predicted the breakdown of centralized bargaining arrangements in these countries and their convergence on more decentralized models of industrial relations through competitive deregulation (Kapstein, 1996; Katz and Darbishire, 1999; Martin and Ross, 1999).

A number of authors undertook to test these claims, and the picture that emerged instead pointed to the resilience of traditional collective bargaining institutions. The most influential of the early studies, the one by Wallerstein *et al.* (1997), documented mostly surprising stability in the dominant level of bargaining despite the new strains. Lane Kenworthy devised a somewhat different measure to tap the degree of coordination in bargaining across the economy (as opposed to the 'level' of bargaining), but the results also point to continuity, not change. Figures 1 and 2 depict trends in terms of both the Golden–Wallerstein and Kenworthy scores for three countries that vary in many ways but that all count as 'coordinated' in the V-of-C literature—Denmark, Germany and Japan. Only Denmark records any change in the direction of decentralization, while Germany and Japan appear to be as centralized/coordinated today as they were in the 1970s.

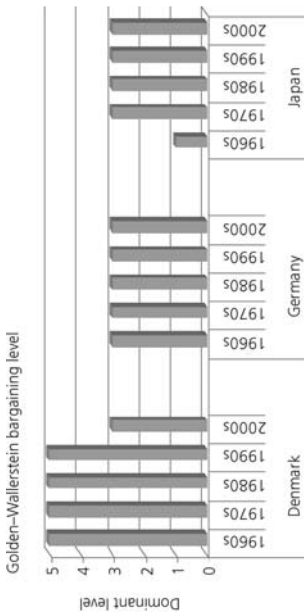
However, documenting a high degree of formal stability in bargaining structures may not tell the whole, or even the main, story. It is clearly possible for formal arrangements to stay in place while the number of workers whose wages and working conditions are actually covered by the contracts negotiated there shrinks. To the extent that this is happening, as in fact outside the Nordic countries it clearly is, it would be hard to sustain arguments about the resilience of institutional arrangements in CMEs generally. Thus, if we look at these same three cases with respect to collective bargaining coverage, a very different picture emerges. In both Germany and Japan, coverage has shrunk significantly in the past two decades, signalling a decline in the number of workers whose working conditions are set in the context of these (still comparatively centralized/coordinated) negotiations.<sup>2</sup> In contrast, Denmark recorded an increase in the number of workers covered between 1980 and 2000 (from 70+ to 80+ %), despite the drop in formal coordination that Kenworthy's coordination score picks up (OECD, 2004, p. 145). Figures 3 and 4 complement this picture by tracking developments with respect to two categories of 'atypical' or 'irregular' workers whose jobs are more precarious and whose benefits are often less generous than those of

<sup>2</sup>The data in this area are notoriously imprecise. However, OECD figures indicate a drop in Germany from 80+ to 68% between 1980 and 2000; for Japan, they record a fall from 25+ to 15+ % in that same period (OECD 2004, Table 3.3, p. 145).



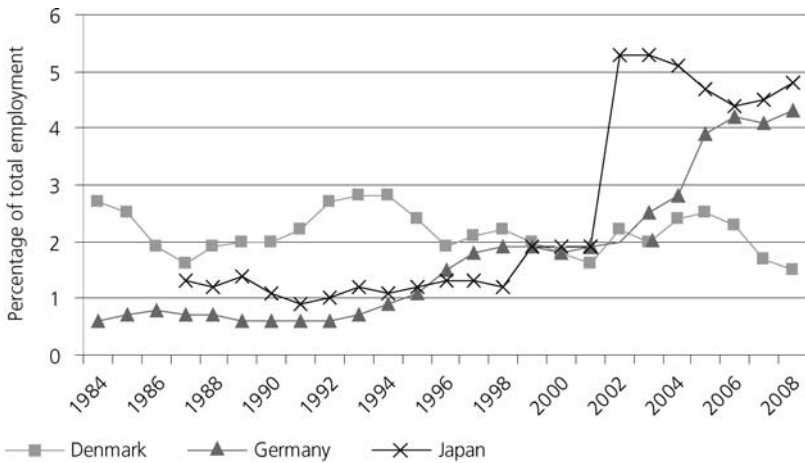
Notes: Data run only through 2002 for all countries.  
 Definitions:  
 1 = fragmented wage bargaining (mostly individual firms or plants);  
 2 = mixed industry- and firm-level bargaining;  
 3 = industry-level bargaining with some pattern setting;  
 4 = centralized bargaining by peak confederation(s) or government imposition of a wage schedule/freeze, without a peace obligation;  
 5 = centralized bargaining by peak confederation(s) or government imposition of a wage schedule/freeze, with a peace obligation.  
 Source: Kenworthy measures updated and provided by Duane Swank (Swank, D. (2007) 'Data Set on the Political Economy of Twenty-one Developed Democracies', Electronic Data Base, (Milwaukee, WI, Department of Political Science, Marquette University).  
 For original source data, full documentation and detailed definitions, see Lane Kenworthy's website at <http://www.u.arizona.edu/~kenwor/data.html>.

Figure 2 Trends in coordination in wage setting, 1960s–2000s (Kenworthy measures).



Notes: Data run through 2005 for Denmark and Germany and through 2004 for Japan.  
 Definitions:  
 1 = plant-level wage setting;  
 2 = industry-level wage setting without sanctions;  
 3 = industry-level wage setting with sanctions;  
 4 = central wage setting without sanctions;  
 5 = central wage setting with sanctions.  
 Sources: Golden-Wallerstein measures updated and provided by Duane Swank (Swank, D. (2007) 'Data Set on the Political Economy of Twenty-one Developed Democracies', Electronic Data Base, (Milwaukee, WI, Department of Political Science, Marquette University).  
 Original source: Golden, M., Lange, P. and Wallerstein, M. (2009) 'Union Centralization among Advanced Industrial Societies: An Empirical Study', *Indl:1902.1/10193UNF:3-RKC-aQbCh2c7ffATCuUj0g== Miriam Golden* [Distributor]  
 For full documentation and definitions, see UCLA website: [http://bn.iq.harvard.edu/bwn/dw/golden/faces/studyStudyPage.xhtml?studyid=636&studylistingindex=1\\_c9529f0f867283ecde884116000](http://bn.iq.harvard.edu/bwn/dw/golden/faces/studyStudyPage.xhtml?studyid=636&studylistingindex=1_c9529f0f867283ecde884116000).

Figure 1 Trends in bargaining level, 1960s–2000s (Golden–Wallerstein measures).



Source: OECD; data provided by Duane Swank.

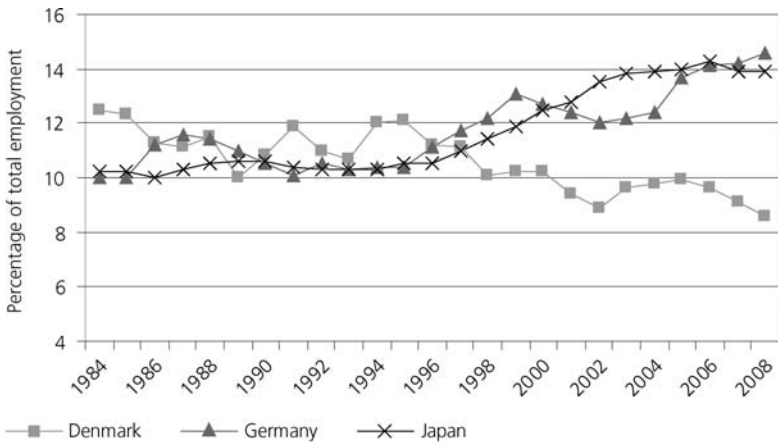
**Figure 3** Involuntary part-time employment as a percentage of total employment, 1984–2008.

workers in standard employment relationships. Figure 3 documents the number of involuntary part-time workers, and Figure 4 records the number of temporary workers, in each case as a percentage of total employment. In both cases, we see that the number of atypical workers has risen in Germany and Japan since the 1980s (despite stability on the formal measures noted earlier), while the number of such workers has declined in Denmark.

In short, many important changes currently underway in the advanced industrial countries do not take the form of a direct frontal attack on existing institutions or practices, and instead transpire through more subtle processes that can also unfold beneath the veneer of formal institutional stability. These developments pose a challenge for conventional institutional analysis, which in the past has relied heavily on formal attributes. They call for devising more discriminating measures and for assembling better data, the latter being a task that I am sure armies of research assistants are tackling as I write.<sup>3</sup>

Beyond the usual mantra calling for more and better data, however, I want to suggest that contemporary developments call, in addition and perhaps more urgently, for analytic and conceptual innovations that can draw our attention to those aspects of institutional evolution and change that are unlikely to emerge on their own, no matter how much data we have. Concept formation

<sup>3</sup>However, longitudinal analysis seems to be chronically bedeviled by an ‘owl of Minerva’ syndrome, since in many cases, the relevant information begins to be collected only after the phenomenon is already well advanced. For example, the OECD has only recently begun to collect data on involuntary part-time employment.



Source: OECD Employment Statistics; accessed at [http://stats.oecd.org/Index.aspx?DatasetCode=TEMP\\_I](http://stats.oecd.org/Index.aspx?DatasetCode=TEMP_I)

**Figure 4** Temporary employment as a percentage of total employment.

is a seriously underappreciated aspect of the work of political scientists, and yet without concepts to capture them, key changes will often go overlooked (on concept formation, see Mahoney, 2004; Goertz, 2006). An example from the literature on welfare regimes is the concept of ‘drift’ as identified and analysed by Jacob Hacker (2005). Previous work on welfare policy had provided a powerful explanation for institutional stability in the face of new strains. Paul Pierson famously showed how social programmes and associated institutions, through powerful feedback effects, could become ‘locked in’ politically over time (Pierson, 1994).

What Hacker’s work revealed, however, is that this picture of institutional stability is in some cases only ‘half right’, since some of the most important changes have occurred not through the kinds of noisy legislative battles for which political scientists are typically looking, but rather through more subtle processes in which institutions maintain their formal integrity but gradually lose their grip on social reality as slow-moving trends (e.g. demographic shifts or evolving gender roles) alter the risks that people actually face. Conservatives who are interested in welfare retrenchment do not necessarily need to assemble a coalition to re-write the rules if, by simply maintaining the status quo, they can effectively prevent existing programmes from being updated and adapted to cover emerging new social conditions. Hacker’s innovation was not to introduce more or better data—though some of that was involved as well—but instead to make a conceptual move that redirected our attention, allowing us to see important changes where others saw nothing but stability.

In a collaborative work, Wolfgang Streeck and I culled from the existing empirical literature an inventory of modes of change that are commonly

overlooked in more formalistic accounts (Streeck and Thelen, 2005). Alongside drift, these include layering (Schickler, 2001), in which amendments or additions to existing arrangements redirect their overall trajectory of development, and conversion (Thelen, 2003), in which the meaning and valence of institutional rules are altered through their authoritative re-interpretation. Our categories almost certainly do not exhaust the possibilities, and much work remains to be done to improve and expand on them. However, drawing attention to these processes with clear and evocative concepts is a necessary precondition for theorizing the kinds of incremental but potentially transformative changes we observe in the advanced capitalist economies and beyond. Thus, in a subsequent work, James Mahoney and I were able to build on the conceptual inventory laid out in Streeck and Thelen (2005) by developing a series of propositions that specify the conditions under which these different modes of change are more and less likely to occur (Mahoney and Thelen, 2010). Testing the hypotheses we propose against new cases will help to refine the concepts, as well as enrich our understanding of the kinds of changes we can observe under specific institutional conditions.

## 2. Beyond the LME–CME dichotomy

Devising concepts so that we can recognize frequently overlooked, gradual modes of change as potentially transformative is the first step. However, in order to assess the *direction* of change, we also need analytic innovations that can move us beyond the traditional LME–CME dichotomy around which the current debate is organized. It seems to me that the usual framing of the issue—as a question of the extent of liberalization—squanders one of the greatest advances offered by the V-of-C framework over its precursors. The traditional corporatist literature of the 1970s was built around the practice of arraying countries along a single continuum, in which differences between them (i.e. between ‘more’ versus ‘less’ corporatist countries) were seen as differences in degree (Thelen, 1994). In contrast, the V-of-C literature recasts the debate by organizing the analysis of political economies around ideal-typical models that operate according to wholly different logics—the differences among them, in other words, are in *kind* and not in *degree*. The current debate, which centres on the question of the relative resiliency or breakdown of CMEs (and which, as noted, amounts in most cases to a question of how far ‘liberalization’ has taken CMEs towards LME-type arrangements), effectively re-situates countries on a single continuum and reduces the question of change to movement along that continuum.

In a previous contribution to this journal, Peter Hall and I argued that the term ‘liberalization’, which is typically invoked in the literature, may be too



encompassing to be useful in assessing the meaning and significance of the myriad developments this term subsumes (Hall and Thelen, 2009, pp. 22–24). There is certainly a family resemblance between some aspects of the reforms associated with Danish ‘flexicurity’ and some of the measures introduced by Margaret Thatcher in the UK in the 1980s, and both can reasonably be treated as cases of ‘liberalization’, broadly defined. However, it is not clear that the term then provides us with the kind of precise and discriminating analytic tool we need to grasp the rather different implications of different ‘liberalizing’ moves.<sup>4</sup>

The power of the original V-of-C framework is precisely that it packs a number of insights into two stylized ideal-typical models,<sup>5</sup> and so I am not calling for a proliferation of models. Nor am I entirely convinced by accounts that treat empirical cases that do not conform to the ideal type as hybrids (e.g. Campbell and Pedersen, 2007), since inevitably empirical cases are more complex than logical analytic constructs. In fact (and despite ambiguity and confusion in some of the V-of-C literature itself on this), I think these two models are best understood not as stylized depictions of actual empirical cases, but as heuristic devices, or what John C. McKinney once called ‘constructed types,’ which he defined as ‘purposive combination[s] and (sometimes) accentuation[s] of a set of criteria with empirical referents that serves as a basis for comparison of empirical cases’ (McKinney, 1966, p. 3, cited in Schmitter, 1974, p. 94).<sup>6</sup> In my view, the LME and CME constructs still serve as useful guides to analysis in that sense.

At the same time, however, it seems clear that we need more degrees of freedom than this dichotomy offers for assessing the direction of change, especially though certainly not exclusively within the CMEs. One useful starting point would be to specify more clearly than previously different ‘varieties’ of coordination, that is, retaining the core distinction between liberal and coordinated models but unpacking somewhat the rather diverse logics behind alternative modes of coordination. In a previous work, I distinguished solidaristic from

---

<sup>4</sup>Höpner *et al.* (2009) have recently proposed to distinguish between ‘distributive liberalization’ and ‘regulatory liberalization’, and this could be a promising start.

<sup>5</sup>These insights pertain particularly to the connections across different institutional arenas that had traditionally mostly been studied separately, a feature this framework shares with those of other scholars writing around the same time, e.g. Hollingsworth and Boyer’s conception of different ‘social systems of production’ (Hollingsworth and Boyer, 1997) and Streeck and Yamamura’s broad distinction between liberal and non-liberal capitalism (Streeck, 2001).

<sup>6</sup>This usage comports with my understanding of Weberian ideal types, as least as these were taught to me by Reinhard Bendix at the University of California in Berkeley. Admittedly, Weber himself left ample room for divergent interpretations of how he meant for ideal types to be used, but for a similar reading of Weber on this, see Burger (1976, esp. pp. 133–134, 139–140, 159).

segmentalist versions of coordination, a difference that was previewed but not fully elaborated in the original V-of-C volume (see Hall and Soskice, 2001, pp. 34–36 on ‘group-based’ coordination; the terms I used—solidarism and segmentalism—come from Swenson, 2002). But more could also be done to flesh out the distinctive political underpinnings of nationally coordinated economies (as found in Scandinavia) and sectorally coordinated economies (in many continental countries) (for a start, see Kitschelt *et al.*, 1999b; Martin and Thelen, 2007; Martin and Swank, 2008). Achieving more conceptual and analytic degrees of freedom to make precise distinctions among types of coordination is important because many of the changes that are transpiring in the CMEs do not so much represent liberalization (in the sense of across-the-board deregulation), as they do some rather consequential shifts from one form of coordination to another (i.e. non-trivial movement within the broad category of CME) (Thelen and Kume, 2006; also Pontusson, 1997).

Some of the relevant dimensions of variation across CMEs, of course, have already been worked out in a large literature on welfare regimes that builds on Esping-Andersen’s powerful three-fold typology which distinguishes social democratic from conservative welfare regimes (Esping-Andersen, 1990). Furthermore, a strong body of work has emerged that links this welfare literature to the V-of-C framework (e.g. many of the essays in Kitschelt *et al.*, 1999a). Yet, more work remains to be done to explore fully the connections between social policy regimes and the entire range of institutions—finance, corporate governance, education and training, labour market policy and industrial relations—that are so central in the V-of-C debates.

Our understanding of these linkages is likely also to be enhanced by the current debate on ‘dualism’, which focuses on the relationships between labour market policy, welfare and electoral dynamics (see e.g. Ebbinghaus and Eichhorst, 2007; Rueda, 2007; Eichhorst and Marx, 2009). However, to this point, the ‘dualism’ literature has been generating at least as many questions as definitive answers. For example, when it comes to insider–outsider tensions, is social democracy part of the problem (Rueda, 2007) or part of the solution (Pontusson, 2009)? Should we attribute the resilience of egalitarianism in the face of pressures towards dualism to partisan politics (Huber and Stephens, 2001; Bradley *et al.*, 2003), or the influence of state bureaucrats (Martin, 2005)?

My own sense is that the answers to these questions can only be found through a close analysis of the specific coalitions that are behind particular reform efforts (for especially useful examples, see Iversen and Soskice, 2009 and Häusermann, 2010). In this endeavour, it will be essential to complement existing large-scale quantitative work on dualism with careful case-based analysis. Many studies simply infer interests and preferences either from

ascriptive characteristics of different groups or from the types of jobs they typically occupy (e.g. women and immigrants are almost always, automatically, categorized as ‘outsiders’)—and then attribute outcomes to the weakness of these groups relative to ‘insiders’. However, rather than assume preferences, we need to research and document them, because it turns out that the ‘same’ group often has different interests in different countries. Women make up a large number of those employed in ‘atypical’ (temporary, precarious) jobs across all the CMEs, but in some cases they may be allied politically with their insider husbands, perceiving that the prospects of defending their (derived) insider benefits are rosier than those of creating new entitlements for atypical workers in a period of fiscal distress (e.g. Iversen and Rosenbluth, 2006). For ethnicity, it appears that strong vocational training systems in some countries may provide an avenue through which immigrants can become well integrated into *industry* even if they remain very poorly integrated into *society* (Halepli, 2007; Lacey, 2008, esp. pp. 144–169). The politics in such cases are very different from other countries where there is a lack of integration in both society and industry. In short, the politics of dualism are a good bit more interesting than sometimes depicted in simple ‘insider’ versus ‘outsider’ models, and understanding outcomes requires identifying the preferences and interests cross-nationally that drive political behaviour, sometimes in different directions.

### 3. The future of egalitarian capitalism, in the light of its past<sup>7</sup>

Finally, I think that anyone interested in the future of egalitarian capitalism would do well to look to its past. An important literature has emerged over the past decade or so that explores the origins and early development of different models of capitalism. This work has produced key insights that are well worth bearing in mind in our thinking about the present. Three points strike me as particularly important for the current debate.

#### 3.1 *The relationship between employer coordination and labour power is not zero-sum*

In the 1970s, the dominant paradigm for the study of the political economy of labour was corporatism theory. While there were many versions of this theory, the conventional wisdom at the time generally saw corporatism as a product of labour strength, as highly centralized union confederations had been able to

<sup>7</sup>I adapt a formulation from the title of a 1993 WZB Working Paper by Peter Swenson, ‘The End of the Swedish Model in Light of Its Beginnings’ (Swenson, 1993).

use their political and market power to ‘push back’ capital and institutionalize a prominent role for labour in the political economy (see especially Swenson, 1991; and for a review of this whole literature, see Thelen, 1994). Careful historical work, however, subsequently brought to light the crucial role sometimes played by employers in the construction and maintenance of corporatism and other arrangements that we had previously associated with union power. James Fulcher’s point-blank assertion that ‘the centralization of Swedish industrial relations was brought about by the employers’ (Fulcher, 1991, p. 95) contradicted years of received wisdom, and Peter Swenson’s detailed archival research shed light on what motives led employers in Denmark and Sweden to bring their considerable power to bear to push for centralization in the face of resistance by segments of both labour and capital (Swenson, 1991).

These observations and insights should not cause us to jump to the idea that far-seeing employers undertook these initiatives in order to allow themselves later to pursue high-quality production in collaboration with labour. Of course, employers did not originally organize themselves to cooperate with emerging unions, but more often to try to destroy them (Paster, 2009). The evidence as I read it thus weighs heavily against any kind of functionalist account (see e.g. Thelen, 2004) and points instead to employers pursuing short-term goals and very much working within the constraints and opportunities they had inherited from the past—which, in the corporatist countries, included, prominently, unions that were organized in a rather unified way.

What the revisionist corrections to the original corporatism literature do show, however, is that labour strength and employer coordination do not stand in a zero-sum relationship to one another but historically appear to go hand-in-hand.<sup>8</sup> It is no coincidence that those countries that we associate with more egalitarian outcomes feature a high degree of coordination on *both* sides of the class divide, while the less egalitarian ‘liberal’ market economies are characterized by fragmented unions *and* weak employer associations. Clearly, a high degree of employer coordination is not *sufficient* to generate egalitarian outcomes, but coordination on the employer side does appear to be very useful and perhaps even *necessary* to sustaining high levels of social solidarity.

This is not an obscure historical or ‘academic’ point. It is a fact of life that is openly acknowledged by unions in the organized economies. For instance, in the 1990s, when disorganization and turmoil within Germany’s employer associations helped the metalworking union (IG Metall) score a key victory in collective bargaining, labour’s celebrations were muted and accompanied by expressions of concern

---

<sup>8</sup>This is a point much emphasized by Swenson (Swenson, 1991; see also, more recently, Huber and Stephens, 2005).

over the weakness of the employer association (Thelen, 2000).<sup>9</sup> German unions, in other words, are very aware that their own ability to conclude binding and encompassing agreements hinges on organizational viability on the employers' side.

Recent work at both the macro and the more micro levels confirms the mutually reinforcing relationship between labour strength and employer coordination. Beramendi and Cusack, for example, show how 'high levels of wage-bargaining coordination... facilitate the implementation of left-wing policy and constrain the implementation of policies favoured by the Right', among other things by 'reduc[ing] employers' resistance to a generous welfare state and dampen[ing] its economic costs by ensuring the agreement of unions to wage moderation' (Beramendi and Cusack, 2009, p. 263; see also Martin, 2005). It is no coincidence that, in Britain, the collapse of the labour movement since the 1960s and 1970s went hand-in-hand with a dismantling of coordinating capacities on the employer side (Howell, 2000).

### 3.2 *Coordination is hard to achieve and difficult to maintain*

A second point that emerges very clearly from historical studies, however, is that coordination is hard to achieve and difficult to maintain (e.g. Thelen and Kume, 2006). Even if there are joint gains to be had through cooperation, employers do not typically unite spontaneously and their organizations are chronically prone to fall apart as a result of opportunism and guile. Even in the liberal market economies, employers can sometimes band together to achieve a shared *negative* goal—for example, to crush a strike—but more enduring forms of coordination are elusive (Streeck, 1992). Strong unions, in fact, sometimes have provided the monitoring and policing that holds coordination together, punishing 'chiselers' and cheaters (Bowman, 1985; Klug, 1993; Swenson, 2002).

What we also know, however, is that state policy is usually crucial to creating and maintaining coordination on both sides of the class divide. In my own work, for example, I found that the German state directly created the conditions that allowed employers to overcome their collective action problems to coordinate on training—with significant knock-on effects for a wider range of institutions and practices in that country (Thelen, 2004). For a broader range of countries, Cathie Jo Martin and Duane Swank underscore the central role played by state bureaucrats in the development of corporatism

---

<sup>9</sup>For contemporary accounts, see *Frankfurter Allgemeine Zeitung*, April 6, 1995; *Handelsblatt*, March 24, 1999; *Offenbach Post*, December 10, 1996, which quotes a union representative saying: 'Chaos reigns at Gesamtmetall: it is a catastrophe'. Moreover, as subsequent events brought out, fragmentation on the employer side sooner or later produces tensions in the labour side as well (Thelen and Kume, 2006, pp. 24–25).

in the late nineteenth century (Martin and Swank, 2008). Howell (2005) and Culpepper (2010) similarly reveal the importance of state action in sustaining episodes of coordination even in liberal and mixed countries like the UK and France.

The lesson for today is that solidarity needs to be shored up—on both sides of class divide, since disorganization on one side is contagious and almost always infects the other side as well. As noted earlier, a part of the problem that German labour has faced in the last decade or so emanates from frictions and conflicts of interest among different segments of capital—both longstanding ones between small and larger companies, but also, increasingly, newer ones between manufacturing and service sector firms. Such problems are exacerbated by the very uneven presence of unions themselves, and in this sense, recent developments have fully brought to the fore peculiarities of the German model that were obscured in the ‘Golden Era’ of postwar capitalism, in particular the heavy concentration of unions in manufacturing and the reliance of the German model on *employer* organization rather than high and uniform union presence throughout the economy as in Scandinavia (Thelen, 1991; Martin and Thelen, 2007).

In addition, though, Germany’s system of organized self-governance and its ‘semi-sovereign’ state—once celebrated as strengths—now seem to be crucial handicaps (Streeck, 2005). It is worth noting that the cases that are now held up as models of continued social solidarity were forged in the ‘shadow of hierarchy’—against the threat of state action or sanctions. Christa van Wijnbergen shows how the Dutch model was an ‘imposed consensus’, negotiated against the backdrop of a state that had very credibly committed itself to direct intervention if negotiations would fail (van Wijnbergen, 2002). This echoes Cathie Jo Martin’s depiction of a crucial Danish agreement in 1988 as having been the result of strategic cooperation between employers and unions who were both desperate to keep the state out (Martin, 2005). It parallels as well observations for Sweden, where the key agreement in 1997 that shored up coordination was achieved against the threat of state arbitration or, as Ahlberg and Bruun put it, with the social partners ‘on the way to the gallows’ (Ahlberg and Bruun, 2005, cited in Howell and Givans, 2009, p. 17; see also Thelen and Kume, 2006, pp. 14–21).

### 3.3 *The institutions that now support egalitarian capitalism are ambiguous and contested, and many were not originally created to support egalitarian capitalism at all*

The V-of-C literature has sometimes been criticized for its emphasis on employers and employer interests (Pontusson *et al.*, 2002). But to me, it does not seem

far-fetched to think that in capitalist economies, employers exercise very significant power. Again, what I think the history teaches us is that even if capitalists cannot determine outcomes unilaterally, in capitalist political economies, institutions that rest on labour power against capital's interests will not be durable (see especially Swenson, 1997). As the case of Swedish wage-earner funds shows, where political-economic institutions do not enjoy the support of at least some powerful segments of capital, even the strongest labour movements will not be able to defend them (Pontusson, 1992; Pontusson and Swenson, 1996).

This is not the end of the story, though, for again history provides myriad examples that illustrate the kind of manoeuvring that can reshape political-economic institutions and outcomes over time—and sometimes in unexpected directions. The classic example is probably still Streeck's analysis of diversified quality production in Germany (Streeck, 1991). Streeck showed how 'collective institutional obligations' pressed upon reluctant employers could sometimes redound to their benefit. Not despite but precisely because they interfered with free markets, institutions like co-determination and centralized bargaining (along with strong vocational education and training) 'forced and facilitated' employers' pursuit of highly successful strategies focusing on high skill, high-quality production. In short, even if it is not possible in capitalist political economies to force employers to alter their core *interests*, historically it has been proved possible for labour to find ways to reshape firm *strategies* in ways that align economic efficiency with more egalitarian outcomes.

Streeck's famous dictum that employers are sometimes better off when they do not get the free markets they think they want has a corollary on the labour side as well—for in some cases, redistributive outcomes emanate not from labour successes but from union myopia or even defeat. For example, Bo Rothstein famously showed that, in the early industrial period, it was almost always Liberal, not Labour, governments that introduced Ghent systems of voluntary unemployment insurance, which in the long run proved so crucial to generating and maintaining high levels of union organization and labour strength. Unions often saw no advantage in such systems and urged Labour governments instead to implement what they at the time considered 'more secure' or 'more egalitarian' compulsory unemployment schemes administered by the state (Rothstein, 1992, p. 44). To take a more contemporary example, Danish flexicurity is often depicted as a product of far-sighted bureaucrats and enlightened labour leaders. However, the cornerstone on which the whole edifice was built, namely flexible labour markets, is a more or less direct legacy of labour's *failure* in the 1960s and 1970s to prevail in battles over industrial democracy that would have provided strong plant-based employment protections—battles that unions were winning in other countries (Emmenegger, 2009). Paradoxically, where organized labour succeeded best in securing strong rights for local labour

representatives in the 'Golden Era' of postwar capitalism, tendencies towards labour market closure and associated strains on solidarity could emerge in a more virulent form subsequently.

The reason we cannot deduce outcomes mechanically from institutions is that—especially in *capitalist countries that are also democratic*—institutions are contested in an ongoing way, and not just in the industrial but also in the political arena. What history teaches us is that the results of such contestation can, over time, dramatically alter the form and functions of these institutions. As counter-intuitive as it may sound, such changes are often crucial to the survival of these institutions, and this is because institutions do not persist through inertia or by standing still. As the world around them changes, their survival depends not on their faithful reproduction as originally constituted, but rather on their ongoing adaptation to shifts in the political and economic environment in which they are embedded. The German vocational training system—originally devised for the handicraft sector in the late nineteenth century—would never have survived the decline of the artisanal economy and the advance of democracy had it not been embraced and adapted to the needs of industry and to the demands of newly incorporated unions. In a similar fashion, its survival now depends crucially on its active adaptation to the decline of manufacturing and the shift in employment to the service sector. Success in this is by no means foreordained; indeed—and this is true of *all* the institutional arrangements in transition today—there is no guarantee that new coalitions will form to adapt and shore them up, even if failure to do so might well be against the individual and collective interests of unions and employers alike.

#### 4. Conclusion

A common denominator across all the points raised in this essay is a call for more conceptual and analytic degrees of freedom to transcend prevailing conventions that force us to conceive of contemporary developments in dichotomous and zero-sum terms. As pointed out at the outset, the politics of change in advanced capitalism today are mostly not about outright dismantling of traditional institutions, but about more subtle manoeuvring within existing constraints. Thus, rather than analyse current trends as a matter of stability versus change, or of agency versus structure—or for that matter fixate on a one-dimensional continuum-based conception of liberal versus coordinated—we should look instead for varieties of coordination based on different coalitional underpinnings (some clearly more consistent with solidarism than others). Understanding the changes that are currently underway will involve tracking transformations that may occur more slowly or more quickly, but that always unfold in ways that recognizably follow from antecedent conditions. In short, focusing on coalitional



dynamics and strategic manoeuvring within a context in which not all moves are equally likely or even possible is the key to understanding both the historical emergence and the likely future of the more egalitarian forms of organized capitalism.

## Funding

My work on these issues has been supported by a research award from the Max Planck Society, the Max Planck Forschungspreis (2003).

## References

- Ahlberg, K. and Bruun, N. (2005) 'Sweden: Transition through Collective Bargaining', *Bulletin of Comparative Labour Relations*, **56**, 117–143.
- Beramendi, P. and Cusack, T. (2009) 'Diverse Disparities: The Politics and Economics of Wage, Market, and Disposable Income Inequalities', *Political Research Quarterly* **62**, 257–275.
- Bowman, J. R. (1985) 'The Politics of the Market: Economic Competition and the Organization of Capitalists', *Political Power and Social Theory*, **5**, 35–88.
- Bradley, D., Huber, E., Moller, S., Nielsen, F. and Stephens, J. D. (2003) 'Distribution and Redistribution in Postindustrial Democracies', *World Politics*, **55**, 193–228.
- Burger, T. (1976) *Max Weber's Theory of Concept Formation*, Durham, NC, Duke University Press.
- Callaghan, H. (2009) 'Insiders, Outsiders, and the Politics of Corporate Governance', *Comparative Political Studies*, **42**, 733–762.
- Campbell, J. L. and Pedersen, O. K. (2007) 'The Varieties of Capitalism and Hybrid Success: Denmark in the Global Economy', *Comparative Political Studies*, **40**, 307–332.
- Culpepper, P. (2010) *Quiet Politics: Business Power and Corporate Control*, New York, Cambridge University Press.
- Ebbinghaus, B. and Eichhorst, W. (2007) *Distribution of Responsibility for Social Security and Labour Market Policy*, Amsterdam, Amsterdam Institute for Advanced Labour Studies.
- Eichhorst, W. and Marx, P. (2009) *Reforming German Labor Market Institutions: A Dual Path to Flexibility*, Bonn, Forschungsinstitut zur Zukunft der Arbeit.
- Emmenegger, P. (2009) 'The Long Road to Flexicurity: The Development of Job Security Regulations in Denmark and Sweden,' paper read at the annual meeting of the Society for the Advancement of Socio-Economics, Paris, July 16–18.
- Esping-Andersen, G. (1990) *Three Worlds of Welfare Capitalism*, Princeton, NJ, Princeton University Press.

- Ferner, A. and Hyman, R. (eds) (1998) *Changing Industrial Relations in Europe*, Malden, MA, Blackwell.
- Fulcher, J. (1991) *Labour Movements, Employers and the State: Conflict and Co-operation in Britain and Sweden*, Oxford, Clarendon Press.
- Goertz, G. (2006) *Social Science Concepts: A User's Guide*, Princeton, NJ, Princeton University Press.
- Hacker, J. (2005) 'Policy Drift: The Hidden Politics of US Welfare State Retrenchment'. In Streeck, W. and Thelen, K. (eds) *Beyond Continuity: Institutional Change in Advanced Political Economies*, Oxford, Oxford University Press.
- Halepli, L. S. (2007) *The Political Economy of Immigrant Incorporation: The Cases of Germany and the Netherlands*, London, European Institute, London School of Economics.
- Hall, P. A. (2007) 'The Evolution of Varieties of Capitalism in Europe'. In Hancké, R., Rhodes, M. and Thatcher, M. (eds) *Beyond Varieties of Capitalism*, Oxford, Oxford University Press.
- Hall, P. A. and Gingerich, D. (2009) 'Varieties of Capitalism and Institutional Complementarities in the Political Economy: An Empirical Analysis', *British Journal of Political Science*, **39**, 449–482.
- Hall, P. A. and Soskice, D. (eds) (2001) *Varieties of Capitalism: The Institutional Foundations of Comparative Advantage*, Oxford/New York, Oxford University Press.
- Hall, P. A. and Soskice, D. (2003) 'Varieties of Capitalism and Institutional Change: A Response to Three Critics', *Comparative European Politics*, **2**, 241–250.
- Hall, P. A. and Thelen, K. (2009) 'Institutional Change in Varieties of Capitalism', *Socio-Economic Review*, **7**, 7–34.
- Häusermann, S. (2010) *Modernization in Hard Times: The Politics of Welfare State Reform in Continental Europe*, New York, Cambridge University Press.
- Hollingsworth, J. R. and Boyer, R. (1997) 'Coordination of Economic Actors and Social Systems of Production'. In Hollingsworth, J. R. and Boyer, R. (eds) *Contemporary Capitalism: The Embeddedness of Institutions*, New York, Cambridge University Press, pp. 1–48.
- Höpner, M., Petring, A., Seikel, D. and Werner, B. (2009) *Liberalisierungspolitik: Eine Bestandaufnahme von zweieinhalb Dekaden marktschaffender Politik in entwickelten Industrieländern*, MPIfG Discussion Paper 09/7, Cologne, Max Planck Institute for the Study of Societies.
- Howell, C. (2000) 'From New Labour to No Labour? The Industrial Relations Project of the Blair Government' *New Political Science*, **22**, 201–229.
- Howell, C. (2003) 'Varieties of Capitalism: And Then There Was One?' *Comparative Politics*, **36**, 103–124.
- Howell, C. (2005) *Trade Unions and the State*, Princeton, NJ, Princeton University Press.

- Howell, C. and Givans, R. (2009) 'Rethinking Institutional Change in European Industrial Relations: The Cases of Britain, France and Sweden', Paper read at SASE Annual Meeting 2009, Paris.
- Huber, E. and Stephens, J. D. (2001) *Development and Crisis of the Welfare States: Parties and Policies in Global Markets*, Chicago, University of Chicago Press.
- Huber, E. and Stephens, J. D. (2005) 'Welfare States and the Economy'. In Smelser, N. J. and Swedberg, R. (eds) *The Handbook of Economic Sociology*, 2nd edn, Princeton, NJ, Princeton University Press, pp. 552–574.
- Iversen, T. and Soskice, D. (2009) 'Dualism and Political Coalitions: Inclusionary versus Exclusionary Reforms in an Age of Rising Inequality', Paper read at American Political Science Association, September 3–6, 2009, Toronto.
- Iversen, T. and Rosenbluth, F. (2006) 'The Political Economy of Gender: Explaining Cross-National Variation in the Gender Division of Labor and the Gender Voting Gap', *American Journal of Political Science*, **50**, 1–19.
- Kapstein, E. (1996) 'Workers and the World Economy', *Foreign Affairs*, **75**, 16–37.
- Katz, H. and Darbishire, O. (1999) *Converging Divergences*, Ithaca, NY, Cornell University Press.
- Kitschelt, H., Lange, P., Marks, G. and Stephens, J. D. (eds) (1999a) *Continuity and Change in Contemporary Capitalism*, New York, Cambridge University Press.
- Kitschelt, H., Lange, P., Marks, G. and Stephens, J. D. (1999b) 'Convergence and Divergence in Advanced Capitalist Democracies'. In Kitschelt, H., Lange, P., Marks, G. and Stephens, J. D. (eds) *Continuity and Change in Contemporary Capitalism*, New York, Cambridge University Press, pp. 427–460.
- Klug, T. A. (1993) 'The Roots of the Open Shop: Employers, Trade Unions, and Craft Labor Markets in Detroit, 1859–1907', PhD Thesis, Wayne State University, Detroit.
- Lacey, N. (2008) *The Prisoners' Dilemma: Political Economy and Punishment in Contemporary Democracies* The 2007 Hamlyn Lectures, New York, Cambridge University Press.
- Mahoney, J. (2004) 'Comparative-Historical Methodology', *Annual Review of Sociology*, **30**, 81–101.
- Mahoney, J. and Thelen, K. (eds) (2010) *Explaining Institutional Change: Ambiguity, Agency, and Power*, New York, Cambridge University Press.
- Martin, C. J. (2005) 'Corporatism from the Firm Perspective', *British Journal of Political Science*, **35**, 127–148.
- Martin, C. J. and Thelen, K. (2007) 'The State and Coordinated Capitalism: Contributions of the Public Sector to Social Solidarity in Postindustrial Societies', *World Politics*, **60**, 1–36.
- Martin, A. and Ross, G. (eds) (1999) *The Brave New World of European Labour: Comparing Trade Unions Responses to the New European Economy*, Oxford, Berghahn.
- Martin, C. J. and Swank, D. (2008) 'The Political Origins of Coordinated Capitalism', *American Political Science Review*, **102**, 181–198.

- McKinney, J. C. (1966) *Constructive Typology and Society Theory*, New York, Irvington Publishers.
- OECD (2004) *OECD Employment Outlook*, Paris, OECD.
- Paster, T. (2009) *Choosing Lesser Evils: The Role of Business in the Development of the German Welfare State from the 1880s to the 1990s, Political and Social Sciences*, Florence, European University Institute.
- Pierson, P. (1994) *Dismantling the Welfare State? Reagan, Thatcher, and the Politics of Retrenchment*, Cambridge, UK, Cambridge University Press.
- Pontusson, J. (1992) *The Limits of Social Democracy: Investment Politics in Sweden*, Ithaca, NY, Cornell University Press.
- Pontusson, J. (1997) 'Between Neo-Liberalism and the German Model: Swedish Capitalism in Transition'. In Crouch, C. and Streeck, W. (eds) *Political Economy of Modern Capitalism*, Thousand Oaks, CA, Sage, pp. 55–70.
- Pontusson, J. (2009) 'Once Again a Model: Nordic Social Democracy in a Globalized World'. In Cronin, J., Ross, G. and Shoch, J. (eds) *Futures of the Left*, Durham, NC, Duke University Press (forthcoming).
- Pontusson, J. and Swenson, P. (1996) 'Labor Markets, Production Strategies, and Wage Bargaining Institutions: The Swedish Employer Offensive in Comparative Perspective', *Comparative Political Studies*, **29**, 223–250.
- Pontusson, J., Rueda, D. and Way, C. (2002) 'Comparative Political Economy of Wage Distribution', *British Journal of Political Science*, **32**, 281–308.
- Rothstein, B. (1992) 'Labor Market Institutions and Working-Class Strength'. In Steinmo, S., Thelen, K. and Longstreth, F. (eds) *Structuring Politics: Historical Institutionalism in Comparative Analysis*, New York, Cambridge University Press, pp. 33–56.
- Rueda, D. (2007) *Social Democracy Inside Out*, Oxford, Oxford University Press.
- Schickler, E. (2001) *Disjointed Pluralism: Institutional Innovation and the Development of the U.S. Congress*, Princeton, NJ, Princeton University Press.
- Schmitter, P. C. (1974) Still the Century of Corporatism? *The Review of Politics*, **36**, 85–131.
- Streeck, W. (1991) 'On the Institutional Conditions of Diversified Quality Production'. In Matzner, E. and Streeck, W. (eds) *Beyond Keynesianism*, Aldershot, UK, Edward Elgar, pp. 21–61.
- Streeck, W. (1992) 'The Logics of Associative Action and the Territorial Organization of Interests: The Case of German Handwerk'. In Streeck, W. (ed.) *Social Institutions and Economic Performance*, London, Sage Publications, pp. 105–136.
- Streeck, W. (2001) 'Introduction: Explorations into the Origins of Nonliberal Capitalism in Germany and Japan'. In Streeck, W. and Yamamura, K. (eds) *The Origins of Nonliberal Capitalism: Germany and Japan*, Ithaca, NY, Cornell University Press, pp. 1–38.
- Streeck, W. (2005) 'Industrial Relations: From State Weakness as Strength to State Weakness as Weakness: Welfare Corporatism and the Private Use of the Public Interest'.

- In Green, S. and Paterson, W. E. (eds) *Governance in Contemporary Germany: The Semi-Sovereign State Revisited*, Cambridge, UK, Cambridge University Press, pp. 138–164.
- Streeck, W. (2009) *Re-forming Capitalism: Institutional Change in the German Political Economy*, Oxford, UK, Oxford University Press.
- Streeck, W. and Thelen, K. (2005) 'Introduction: Institutional Change in Advanced Political Economies'. In Streeck, W. and Thelen, K. (eds) *Beyond Continuity: Institutional Change in Advanced Political Economies*, Oxford, UK, Oxford University Press, pp. 1–39.
- Swenson, P. (1991) 'Bringing Capital Back in, or Social Democracy Reconsidered: Employer Power, Cross-Class Alliances, and Centralization of Industrial Relations in Denmark and Sweden', *World Politics*, **43**, 513–544.
- Swenson, P. (1993) *The End of the Swedish Model in Light of its Beginnings: On the Role of Engineering Employers and their Leaders*, Discussion Paper FS I 93–303 (February 1993), Berlin, Wissenschaftszentrum Berlin für Sozialforschung.
- Swenson, P. (1997) 'Arranged Alliance: Business Interests in the New Deal', *Politics & Society*, **25**, 66–116.
- Swenson, P. (2002) *Capitalists against Markets*, New York, Oxford University Press.
- Thelen, K. (1991) *Union of Parts: Labor Politics in Postwar Germany*, Ithaca, NY, Cornell University Press.
- Thelen, K. (1994) 'Beyond Corporatism: Toward a New Framework for the Study of Labor in Advanced Capitalism', *Comparative Politics*, **27**, 107–124.
- Thelen, K. (2000) 'Why German Employers Cannot Bring Themselves to Dismantle the German Model'. In Iversen, T., Pontusson, J. and Soskice, D. (eds) *Unions, Employers and Central Banks: Macroeconomic Coordination and Institutional Change in Social Market Economies*, New York, Cambridge University Press, pp. 138–172.
- Thelen, K. (2003) 'How Institutions Evolve: Insights from Comparative-Historical Analysis'. In Mahoney, J. and Rueschemeyer, D. (eds) *Comparative Historical Analysis in the Social Sciences*, New York, Cambridge University Press, pp. 208–240.
- Thelen, K. (2004) *How Institutions Evolve: The Political Economy of Skills in Germany, Britain, the United States and Japan*, New York, Cambridge University Press.
- Thelen, K. (2009) 'Institutional Change in Advanced Political Economies', *British Journal of Industrial Relations*, **47**, 471–498.
- Thelen, K. and Kume, I. (2006) 'Coordination as a Political Problem in Coordinated Market Economies', *Governance*, **19**, 11–42.
- van Wijnbergen, C. (2002) *Imposing Consensus: State Steering of Welfare and Labor Market Reforms in Continental Europe*, *Political Science*, Evanston, IL, Northwestern University.
- Wallerstein, M., Golden, M. and Lange, P. (1997) "'Unions, Employers" Associations, and Wage-Setting Institutions in Northern and Central Europe, 1950–1992', *Industrial and Labor Relations Review*, **50**, 379–402.