

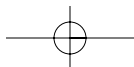
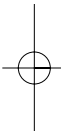
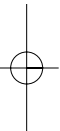
Comparing Welfare Capitalism

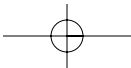
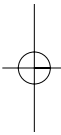
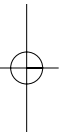
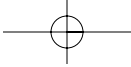
Social policy and political economy in
Europe, Japan and the USA

**Edited by Bernhard Ebbinghaus and
Philip Manow**



London and New York





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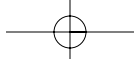
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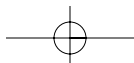
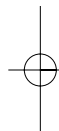
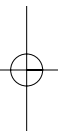
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Country abbreviations in figures

A	Austria
AUS	Australia
B	Belgium
CDN	Canada
CH	Switzerland
D	Germany
DK	Denmark
E	Spain
F	France
GR	Greece
I	Italy
IRL	Ireland
FIN	Finland
JAP	Japan
LUX	Luxembourg
N	Norway
NL	The Netherlands
NZ	New Zealand
P	Portugal
S	Sweden
UK	United Kingdom
USA	United States

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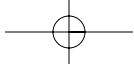
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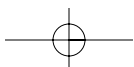
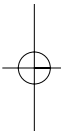
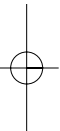
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Acknowledgement

In an effort to bring together scholars from welfare state research, industrial relations and political economy, the editors organised a conference on 'Varieties of Welfare Capitalism' at the *Max Planck Institute for the Study of Societies* (Cologne) in June 1998. For this edited volume, we have chosen the more comparative analyses, covering the different varieties of welfare capitalism: Anglo-Saxon 'free' market economies (UK, USA) vs 'coordinated' market economies (continental Europe, Scandinavia, Japan). We would like to thank the contributors for their collaboration and patience in rewriting their papers. We are also grateful for the insights and comments from other participants at the conference: Jochen Clasen, Susan Giaimo, Karl Hinrichs, Steve Jefferys, Kees van Kersbergen, Stephan Lessenich, Jim Mosher, Paul Pierson, Bo Rothstein, Akira Takenaka, Steven Teles, Christa van Wijnbergen and Jelle Visser.

The Max Planck Institute for the Study of Societies provided not only the venue and financial support for the conference, but also assisted in the production of the manuscript. The editors would like to thank the directors of the Max Planck Institute, Fritz W. Scharpf and Wolfgang Streeck, for their encouragement for this conference and book project. Our special thanks go to Cynthia Lehmann for coordinating the language editing by Dona Geyer, Susanne Harrison and John Booth, to Annette Vogel for meticulous copy-editing, and to Thomas Pott for reworking the complicated graphs. As visiting researchers at the Minda de Gunzburg Center for European Studies at Harvard University in 1999/2000, the editors profited from the stimulating intellectual environment. The intriguing discussions with Paul Pierson and Peter Hall surely left their mark on the book project. We are glad to be able to publish this edited volume in the new *Routledge/EUI Studies in the Political Economy of the Welfare State*, edited by Maurizio Ferrera and Martin Rhodes. We hope this volume will encourage further inquiries across the borders of disciplinary divides.

BERNHARD EBBINGHAUS
PHILIP MANOW

Series editors' preface

One of the main impulses behind the launch of this series on 'The Political Economy of Welfare' was the desire to promote interdisciplinary research, especially that which bridges traditions and specialisations. The first volume in the series – *Immigration and Welfare*, edited by Michael Bommers and Andrew Geddes – combined research on welfare states and immigration in a new and innovative study of transnational social citizenship. In *Varieties of Welfare Capitalism*, Bernard Ebbinghaus and Philip Manow bring their own considerable expertise and that of their distinguished co-authors to bear on another pioneering enterprise – probing the links between welfare states and national capitalisms. In so doing they explore the scope for mutual learning between two literatures (comparative political economy and cross-national welfare state research) and several disciplines (sociology, political science and economics). In line with the editors' ambitions to understand 'institutional complementarities', most of the contributors consider how production regimes, industrial relations and social protection interact, and with what effect. Several authors also consider the welfare-finance nexus in analysing the links between financial markets and pensions.

The result is a rich collection of studies which is also ambitious in its reach. All of the contributions are comparative and between them span the west European and Scandinavian countries, as well as the US and Japan. Thematically, the book ranges across some of the most critical issues facing the advanced welfare states, from de-industrialisation and the challenges of unemployment to the search for appropriate new policy mixes – in early retirement and working time policies, for instance – and the problematic future of pensions funding and social concertation. The conciliation of literatures and disciplines produces a fascinating thread of reflection on connections between production systems and welfare and on 'path dependence' in innovation and reform. How did particular combinations of welfare and production emerge? How can we understand their development over time? What is that holds systems together in the face of external shocks; and why do some adjust more effectively and equitably than others? Of course, answering these questions requires new theoretical insights. In yet another innovation – the inclusion of a chapter by a guest critic – Michael Shalev assesses the various contributors in light of their own theories and assumptions and the broader conceptual aims of the editors.

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The achievements of the book are threefold. First, the reader interested simply in contemporary developments will come away enriched, for all of the chapters are at the cutting-edge of welfare state research. Second, by spanning a series of approaches and arenas, it makes an important contribution to the study 'political economy' as such. For as Wolfgang Streeck puts it, the time has come for a new 'synthesis', bringing together the traditions of post-war social science 'that have often touched but never become systematically integrated'. This book may not have achieved that synthesis. But its interdisciplinary perspective has certainly added to our knowledge of how welfare states are underpinned by a complex architecture of institutions (in the realms of production, finance and labour) and how the public and private elements of these systems interact. Its third innovation lies in the questions it raises for future research. The editors of *Varieties of Welfare Capitalism* have managed to sustain a dialogue with themselves and their authors over the structural approach to political economy that is both influence and adversary for many in this book. Spurred on by Colin Crouch and Michael Shalev, the editors call for deeper reflection on the politics of change and innovation in apparently path-dependent regimes. Their stress on the role of political agency in shaping, sustaining and transforming welfare states is particularly apposite. Policy makers in Europe know all about the forces of inertia, since they grapple with them each day as they strive for reform. By illustrating how actors can shape their social, political and economic environments over time, we can also illuminate the path to future of greater efficiency *and* equity in how welfare systems perform.

Preface

Comparing Welfare Capitalism pulls together traditions in post-war social science that have often touched but never became systematically integrated. The first and perhaps most important of such traditions is epitomised in the work of authors like Reinhard Bendix, Seymour Martin Lipset and Stein Rokkan. Their attempt in the 1960s to uncover the social forces that drove nation building and state formation in Western societies placed *comparative politics* on a new foundation. Investigating in particular the origin of democratic government in its interaction with classes, parties and organised interests, they had to account for the differences and similarities between Western post-war democracies by combining political theory, history and comparative empirical macro-sociology. The work that resulted attained a level of sophistication and a historical depth unmatched since Max Weber wrote about a very different world more than half a century and two world wars away.

The seminal works of the comparative political sociology of the 1960s were written against the backdrop of an influential literature in *political economy* organised around core notions of cross-national convergence. Here the leading expectation was for modern societies to become increasingly similar as a result of identical pressures to find rational solutions to a set of identical functional problems posed by industrialisation. Sooner or later, according to authors like Clark Kerr and W. W. Rostow, even the countries of the then Soviet bloc would have no choice but converge on a regime of 'pluralist industrialism' governed by technocratic experts in pursuit of a politically neutral functionalist best practice. Nowhere was this theme more present than in the study of *industrial relations*, where it had entered through the foundational work of the institutional economist, John Dunlop. To Dunlop and his school, comparative industrial relations was basically a grand narrative of the international progress of collective bargaining, i.e. the backbone institution of labour relations reform under the American New Deal, and of the cross-national adoption of institutional arrangements that had so convincingly demonstrated their capacity to transform disruptive class conflict into peaceful class collaboration in pursuit of economic efficiency.

That narrative lost much of its credibility in the worldwide wave of worker militancy in the late 1960s. To many, the events of those years fundamentally invalidated the prospect of an American-led de-politicisation of politics, and of a

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peaceful settlement of conflicts of interest by sophisticated techniques of 'planning-programming-budgeting'. Instead what seemed to drive politics, in democratic societies as elsewhere, were 'irrational' struggles about power and identity, including elusive intangibles like collective dignity that very much seemed to follow historically conditioned national paths and patterns. That simultaneously the Great American Peace that had reigned since the Korean War, and the social and political stability of the Eisenhower years dissolved in the swamps of Vietnam and in the ghettos of the American cities further discredited the dream of American convergence theorists in the 1950s and 1960s of a world forever pacified by economic growth, Keynesian demand management and the 'logic of industrialism'. A new generation of social scientists that came of age in the 1970s thus began to study industrial relations, no longer as a recipe for de-politicised expert administration of an outdated class conflict, but rather as a central arena of struggle for economic and political power – a struggle on whose uncertain outcome hinged fundamental societal choices between alternative possibilities of organising work and life in modern society.

On the margins the new comparative industrial relations sometimes did make contact with comparative politics. But as it tended to carry with it traditional Marxist assumptions on the overriding importance of the class conflict for politics and society, authors like Lipset who considered other 'cleavages' as equally important were often perceived as too far to the Right to be relevant. As a result, the fact that their approach squarely contradicted the functionalist convergence view was rarely appreciated. Where the two traditions came closest was where comparative politics focused on the study of interest groups, and especially where it did so guided by the concept of *corporatism*, or neo-corporatism. It was above all through this concept that comparative industrial relations became connected with a more encompassing perspective on the political system and on social structure. More generally, the attention paid by comparative politics to organised interests and their social and political status – to what Rokkan had called the 'second tier of government' – provided a possibility to study the diversity of national industrial relations systems in an analytic framework that enabled the discipline of industrial relations to liberate itself from its narrowly pragmatic or even technocratic heritage.

In the 1970s in particular studies of comparative industrial relations drew on the concept of corporatism for a broader view of trade unionism and the collective action of social classes than offered by traditional industrial relations, where unions were essentially no more than agents of collective bargaining. Crucial for this development was the American political scientist, Philippe C. Schmitter. Precisely because his work appreciated the specificity of European, less-than-pluralist patterns of interest politics, he was able to serve as a conduit between the developing European-cum-New Left approach to industrial relations and authors such as Lipset and Bendix and other members of the highly influential Joint Committee on Political Social Sociology of the International Sociological Association and the International Political Science Association. As a result, comparative industrial relations, first in Europe but increasingly also in the

United States, began to develop the conceptual tools that enabled it to view its subject as an element of a society's political system rather than, like Dunlop, merely as a subsystem of the economy confined to rule making on the employment relationship. In subsequent years, the study of what now was essentially *the politics of industrial relations* moved into the very centre of internationally comparative social science. Indeed given the wide variety of national industrial relations arrangements, as well as the traditional focus of the discipline on a limited range of empirical objects that had to be inventorised structurally and functionally in great detail, comparative industrial relations soon became a hotbed for the development of comparative methodology in the social sciences in general.

An important reason why comparative industrial relations was able to acquire such a strategic position in the formation of an institutionalist approach to *comparative political economy* was that the set of institutions on which it specialises are intimately linked, not just to the political, but also to the economic system of modern society. Indeed the 1980s saw a growing interest among industrial relations scholars in how the governance of the employment relationship might be linked to the governance of the economy as a whole, and in particular whether differences in industrial relations were associated with differences, not just in the relationship between state and society, but also in national *patterns of production*. Here concepts like flexible specialisation or diversified quality production were introduced, in an attempt to explore what seemed to be elective affinities or complementarities between national industrial relations regimes on the one hand and the orientation, or 'style', of economic activity on the other. Most of the respective literature mainly pointed out a number of apparent functional relations without exploring their origins or trying much to theorise about them. Even outside the French *régulation* school, however, there was a widespread notion that economic structures and strategies were not necessarily and always prior to a society's institutional structures, including those of industrial relations, and that in certain circumstances at least, the latter might in fact be the independent variable. The exciting prospect this raised was that production patterns, usually believed to be imposed by the market or, alternatively, independently chosen by management, might one day be treated as endogenous by a new *institutional economics* capable of accounting for diverse national versions of modern capitalism as an economic system.

Apart from sporadic connections in the work of seminal figures such as Walter Korpi, the comparative study of the *welfare state*, prominently represented in the 1980s and 1990s especially by Gøsta Esping-Andersen, seems to have developed largely unrelated to the debates in industrial relations. Korpi and Esping-Andersen seem to have felt closer to the new comparative politics tradition, in its American version as well as, in particular, in the work of Stein Rokkan. But like the industrial relations comparativists of the 1970s, they were not only unsympathetic to the Western-democratic triumphalism especially in the work of Lipset, but they were also inclined to regard classes as more than just one category of social actors among others. Indeed their class-theoretical assumptions, clearly rooted in the historical experience and self-perception of Scandinavian Social

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Democracy at the time, seem for some time to have made them largely unreceptive to the work of the neo-corporatist school, which for their taste may have appeared a bit too institutionalist – in the sense of the ‘Oxford School’ of industrial relations or even the Dunlop tradition – and certainly not ‘political’, i.e. class-theoretical enough. This ended only when in the early 1980s John Goldthorpe, to the surprise of many, redefined corporatism as a socially benevolent alternative to what he saw, under the impression of the first years of the Thatcher government, as an emerging new pattern of societal dualism. In 1984, then, the ‘corporatists’ and the theorists of the democratic class struggle and its most important achievement, the welfare state, including Korpi, joined forces under the leadership of Goldthorpe to produce the now famous volume titled *Order and Conflict in Contemporary Capitalism: Studies in the Political Economy of West European Nations*.

Nevertheless, for some time to come, the study of the welfare state and of industrial relations remained largely separate concerns. While Esping-Andersen developed his influential typologies and began to relate different versions of the welfare state to different employment systems, researchers in the comparative industrial relations tradition explored in ever greater detail the institutional implications of different production modes, produced increasingly elaborate taxonomies, not just of systems of collective bargaining or interest representation, but also of mechanisms of economic coordination, or ‘governance’, and related employment to innovation systems at national and company level. An important milestone on the way to a more encompassing comparative political economy was Scharpf’s work on economic policy making during the European employment crisis of the 1980s, in which he explored the interaction between corporatist wage bargaining and monetary policy and the status of national central banks. Also, taking off again from the comparative study of industrial relations, ‘historical institutionalism’ became conscious of itself as a method, or as an approach, leading to more rigorous thinking about the relationship between history and theory, the limits of causal theorising, the notion of strategic action constrained and facilitated by institutional conditions, the merits of case studies and statistics, the significance of context, contingency, interdependence and path dependency, etc. In the 1990s, maturation of the various traditions of comparative politics, industrial relations, political economy and welfare state theory, and with only sporadic cross-fertilisation, generated a broad range of studies on the relations between politics and the economy, and on institutional change in advanced capitalist societies.

The present book indicates that the time for synthesis may now have come. Today the comparative study of politics, industrial relations, national systems of production and welfare regimes seems to be ready to converge under the auspices of a new perspective, that of the *varieties of capitalism*. That perspective began to suggest itself to the social sciences – to the extent that they had preserved their traditional interest in the macro-foundations of social life – with the disappearance of state socialism after 1989 and the accelerated internationalisation of the capitalist political economy in the subsequent decade. As a result of the latter in

particular, the historically grown national variants of a capitalist market economy that had first been described in the 1960s by Andrew Shonfield now more than ever face each other in a global marketplace, quite unlike the post-war 'golden years' in which protective national and international institutions provided them with a carefully safeguarded measure of relative autonomy. At the end of the twentieth century, some of the functional sectors of national systems were found to combine across national borders into integrated sectors of a stateless international economy; the national demarcation lines between sectors and countries were increasingly straddled by multinational firms; and national sectors as well as firms became subject to international regulation threatening to pull them out of the ambit of national politics and policy. As always, the Owl of Minerva prefers to fly at dusk, and social scientists are now inquiring with growing intensity into what constitutes, and may perhaps preserve, the unity of the national systems of political economy out of which the global political economy is being built – trying to determine what has kept them together and made them distinctive in the past, in order to assess whether and to what extent it may continue to do so in the future.

The contributions to this volume suggest that there may be basically two mechanisms by which national systems of capitalism are held together, *functional interdependence* and the resulting efficiency benefits of institutional coherence on the one hand, and *politics* and the distribution of power between groups with different interests on the other. While the book does document the time-honoured division between the theoretical and research traditions associated with one or the other of the two mechanisms as their preferred causal domain, it also suggests that here, too, the time for synthesis may have arrived. Clearly national institutions may be shaped across sectors by a historically evolved distribution of power resources and may, as a result of this, form a coherent whole. But once an institution exists, and as this book shows this certainly applies to the welfare state, it constitutes a power resource in its own right and in this capacity may affect the very distribution of power on which it was originally based. Moreover, institutional arrangements once established give rise to and shape the collective identity of social groups, exercising a formative impact on the interests such groups perceive to be theirs. Similarly, while social groups are driven in their collective political action by their specific interests and identities, respecting the functional constraints inherent in their institutional environment may be rational for them as the efficiency price for solutions that do not observe extant imperatives of system integration may be high. In this way – through continuous interaction and mutual conditioning of political power and institutional interdependence, of interests and institutions, and of effective politics and good policy – stable and more or less coherent national configurations of institutional structures and collective identities may form that, in the absence of external shocks, will tend to evolve along distinctive although not necessarily linear paths. As especially the exchange at the end of this book between the editors and Michael Shalev documents, the central challenge for a future political economy – one that draws on the notion of national systems of capitalism to understand the effects of international

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regime interdependence and competition – may be to endogenise power in institutional and policy analyses while simultaneously embedding considerations of efficient ‘problem solution’ in traditional political analyses of interest and identity.

The editors and most of the authors of this book have in recent years been associated, in one way or other, with the *Max Planck Institute for the Study of Societies* (MPIfG) in Cologne. Some have worked there for years, others have spent time there as visitors, and yet others have attended workshops and conferences. During this period the focus of research at the MPIfG has evolved in a direction that can hardly be better illustrated than by the present book. Like the latter, most of the current research projects at the MPIfG explore the historical evolution of actors and institutions under conditions of an increasingly integrated international economy, with particular emphasis on that core post-war institution of democratic capitalism, the national welfare state, and its fate under growing international interdependence and declining functional completeness of national systems. The evolution of the research agenda at the MPIfG corresponds to a worldwide trend in the social sciences to redirect attention to subjects located, and long hidden, in the intersection between sociology, political science and economics. Given the lasting significance of national political systems as building blocs of the emerging global political economy, it is not surprising that the present surge of institutionalist theory and research in political economy is growing out of the rich and mature comparativist traditions of post-war social science. Their joining together in an effort to develop a theory of capitalist diversity may lay the foundations for a historical-institutional theory of an international market economy and its embeddedness in evolving national and supranational institutional arrangements.

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