

# Varieties of Capitalism: Trajectories of Liberalization and the New Politics of Social Solidarity

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## Keywords

political economy, advanced industrial countries, equality/inequality,  
employer coordination

## Abstract

This essay reviews recent literature on varieties of capitalism, drawing on insights from existing studies to propose a new, more differentiated way of thinking about contemporary changes in the political economies of the rich democracies. The framework offered here breaks with the “continuum models” on which much of the traditional literature has been based, in which countries are arrayed along a single dimension according to their degree of “corporatism” or, more recently, of “coordination.” In so doing, it reveals combinations—continued high levels of equality with significant liberalization, and declining solidarity in the context of continued significant coordination—that existing theories rule out by definition. I argue that these puzzling combinations cannot be understood with reference to the usual dichotomous, structural variables on which the literature has long relied, but require instead greater attention to the coalitional foundations on which political-economic institutions rest. A coalitional approach reveals that institutions that in the past supported the more egalitarian varieties of capitalism survive best not when they stably reproduce the politics and patterns of the Golden Era but rather when they are reconfigured—in both form and function—on the basis of significantly new political support coalitions.

## INTRODUCTION

The literature on the political economy of the advanced capitalist democracies has long been dominated by institutionalist theories that emphasize the arrangements that define distinctive models of capitalism. The most widely used framework today is that proposed by Peter A. Hall and David Soskice in their influential volume *Varieties of Capitalism* (Hall & Soskice 2001).<sup>1</sup> This framework draws attention to the different types of institutional arrangements characteristic of what they call “coordinated market economies” (hereafter CMEs) that are found in much of Europe and that distinguish these from the alternative “liberal market economies” (LMEs) of the Anglo-Saxon world. Whereas previous work often focused on a single institutional arena in isolation (e.g., industrial relations or finance but not both), Hall & Soskice provide an integrated, systemic view that emphasizes linkages across all of the major institutions that define capitalist political economies: industrial relations institutions, financial arrangements, systems of vocational education and training, corporate governance, and social policy regimes.

The Hall & Soskice framework drew on a rich body of work exploring historically evolved differences in the institutional infrastructure of different capitalist countries (Streeck 1992, Crouch 1993, Boyer & Hollingsworth 1997, Streeck & Yamamura 2001). Weaving insights from these studies together, Hall & Soskice challenged the idea that contemporary market pressures—including long-term trends such as globalization and the decline of manufacturing—will drive a convergence on a single “best” or “most efficient” model of capitalism. On the contrary, the idea at the heart of the varieties-of-capitalism (VofC) framework has been that these two broad models represent different ways to organize capitalism. Each type operates on a wholly different logic, but both are durable even in the face of new strains. However, in contrast to previous corporatism theories that explained the origins and reproduction of key coordinating institutions (such as centralized collective bargaining) with reference to labor strength, VofC scholars suggested that in CMEs employers themselves have a stake in the survival of such institutions because they have organized their production strategies around them and rely on them for their success in the market. This logic offered a reassuring picture for those who might otherwise worry about the breakdown of the institutions characteristic of CMEs, which are also widely seen as supporting an overall more egalitarian form of capitalism—one based on higher levels of equality in terms of income and benefits, stronger social protections, and less poverty—than that which prevails in LMEs.

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

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<sup>1</sup>The analysis in this book built on earlier work in which Soskice first introduced the distinction between “coordinated” and “non-coordinated” market economies (Soskice 1990a,b, 1991, 1999).

These scholars emphasize the commonalities rather than the differences across capitalist countries, particularly with respect to the overall direction of change in LMEs and CMEs alike. Their prognosis for the latter is deeply pessimistic, and it is rooted in a very different, less benign, view of employer interests. For scholars in this camp, employers everywhere inevitably seek to extend the reach of the market. The only thing that distinguished the CMEs in the past was that, for various historically contingent reasons, society had been able to resist capitalists' efforts to break free from the political constraints imposed on them. For these authors, globalization and the attendant decline in organized labor's power and the resurgence of neoliberal ideology bode very ill for the future of the more egalitarian forms of capitalism.

By contrast, defenders of the classic VofC perspective see the divergent institutional arrangements characteristic of LMEs and CMEs as relatively robust and resilient. They note that the institutional differences between the two models of capitalism have deep historical roots (see, e.g., Iversen & Soskice 2009, Martin & Swank 2012). As such, these systems have survived all manner of crises (economic and political) over the past century that are every bit as daunting as today's challenges. Scholars in this camp do not see the institutions of coordinated capitalism as a straightforward product of labor strength against capital; they refer instead to historical research that suggests that many of these arrangements were forged out of cross-class coalitions in which employers were key coarchitects (Swenson 1989, Mares 2000, Martin 2000). Clearly, scholars in this camp acknowledge the changes noted above. However, true to the original anticonvergence theme at the heart of the theory, they tend to insist that most of these do not undermine the core logic that separates CMEs from LMEs (Hall & Gingerich 2009). VofC scholars are thus more likely to code observed changes as modifications or adjustments that do not undermine coordination and may in fact be necessary to stabilize it under new prevailing conditions. At some point, then, the debate typically devolves into a disagreement on whether the glass is half empty or half full.

This essay attempts to chart a new path in these debates. While building on the core insights we have gained from the VofC literature, I demonstrate what can be gained through two innovations that can advance our understanding of current trajectories of change and their likely implications. I argue that recent developments call, first, for greater conceptual clarity to disentangle two phenomena that have come to be unhelpfully conflated in contemporary debates—namely coordinated capitalism and egalitarian capitalism. Second, and based on the conceptual discussion, I propose a new framework that can take us beyond the usual distinctions between CMEs and LMEs and allow us to distinguish among divergent trajectories of change (of liberalization, even) driven by very different political dynamics and associated with different distributional outcomes.

Both these analytic “moves” flow from an understanding of institutional resilience and change that is explicitly linked to an analysis of the political coalitions on which economic institutions rest. Elsewhere I have argued that institutions do not survive long stretches of time by standing still, nor even through the faithful reproduction of the “founding” coalition on which they were originally premised (Thelen 2004b). As the world around these institutions shifts, their survival depends on their active, ongoing adaptation to the social, political, and market context in which they are embedded. Viewing contemporary developments through a political-coalitional lens, the analysis below explains why the institutions that most faithfully reproduce the politics of the “Golden Era” of postwar capitalism of the 1950s and 1960s are the ones most vulnerable to erosion and decay, whereas those that remain most robust are those whose form and functions have been reconfigured under the auspices of support coalitions that are in some respects quite different from those of the past. The next sections lay out each of these points one by one.

## VARIETIES OF CAPITALISM AND ITS CRITICS

For all the debate in the literature, there are really no serious disagreements about which core institutional arenas analysts should be studying. Whatever their disputes, students of the political economy of advanced capitalism are all looking at the same set of structures: industrial relations institutions, financial arrangements, corporate governance, social policy structures, and institutions for education and training. Given the strong consensus on where we should be looking for important changes, why are there such discrepancies in our interpretations of the changes we observe?

### Superficial Differences?

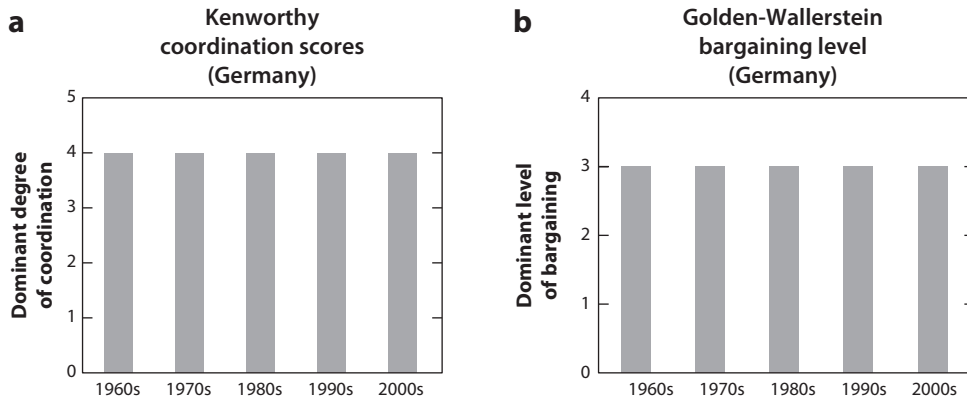
One possibility is that the disagreement is mostly empirical, rooted in an emphasis on different variables or measures. Much like the blind men and the elephant, it could be that different observers, though looking at the same institution, are finding different things because they are examining it from different angles. From some perspectives and by some measures, these institutions appear quite stable, while from other positions and by other measures, they are undergoing dramatic change.

Take the case of industrial relations institutions, clearly the site of a host of new pressures associated with, among other things, the rise of the service sector as well as 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 favor of local bargaining on issues such as wages, working times, and work organization (see, among others, Ferner & 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. Indeed, a significant literature in the 1990s predicted the breakdown of centralized bargaining in these countries and their convergence on more decentralized models of industrial relations through competitive deregulation (Kapstein 1996, Katz & Darbishire 1999, Martin & Ross 1999).

A number of authors undertook to test these claims, but the picture that emerged overwhelmingly pointed to the resilience of traditional arrangements. The most influential of the early studies, by Wallerstein et al. (1997), documented surprising stability in collective bargaining institutions despite the new strains. This picture of continuity was further reinforced in subsequent work based on Kenworthy's (2001) alternative measures, tracking different types and levels of coordination in wage setting. **Figure 1** below presents the results of these exercises for one important CME, Germany, depicting trends in industrial relations from the 1960s through the 2000s using the Wallerstein and the Kenworthy measures—both of which, I might add, are still widely relied on in the literature. By either of the two alternative measures, the picture is clearly one of stability, not change. German collective bargaining—at the level of formal institutions—is as centralized (or coordinated) today as it was in the 1970s.

However, documenting a high degree of stability in formal bargaining structures may not tell the whole, or even the main, story. It is clearly possible for bargaining to remain centralized (or coordinated) even as the number of workers whose wages and working conditions are actually covered by the resulting contracts shrinks. Streeck (2009) paints a very different picture of the trajectory of German industrial relations based on trends in collective bargaining coverage. **Figure 2** documents a steady and significant decline in the number of employees and workplaces covered by industry-wide bargains since 1995.

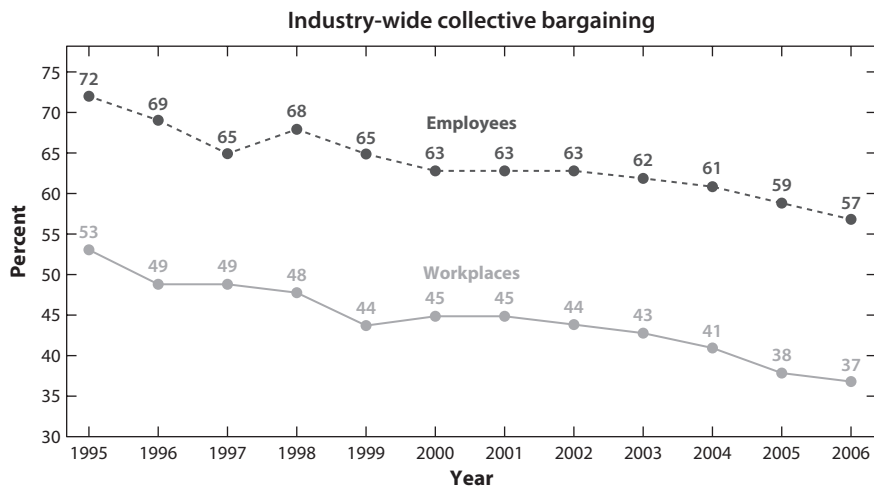
**Figures 1 and 2** make it easy to see how different measures can lead scholars to wildly different conclusions even if they are looking at the very same institution. Part of the problem is that many



**Figure 1**

Trends in German industrial relations from the 1960s through the 2000s using the Kenworthy (a) and Wallerstein (b) measures. Kenworthy data run only through 2002 but Visser has updated to 2007. Level 4 reflects “extensive regularized pattern setting coupled with a high degree of union concentration” (see Kenworthy explanation of scoring at <http://www.u.arizona.edu/~lkenwor/WageCoorScores.pdf>). Wallerstein data run through 2005. Level 3 indicates industry-level wage setting with sanctions. Source: own calculations based on data provided by Duane Swank.

of the important changes under way in the advanced industrial countries have not taken the form of a direct frontal attack on existing institutions or practices but instead have transpired through more subtle processes that unfold beneath the veneer of formal institutional stability. Indeed, in some ways, one of the defining features of the contemporary period is that new tensions often coexist with truly remarkable stability in many of the formal institutional arrangements that still separate CMEs from LMEs.



**Figure 2**

German employees and workplaces covered by industry-wide contracts, as share of total, 1995–2006. Source: Streeck 2009, p. 39.

## Deeper Differences?

If the main source of disagreement about trajectories of modern capitalism were purely empirical, rooted in different methods or measures, then reconciling these views would be relatively straightforward. Surely a comprehensive picture would have to take account of both the structural continuities and the subterranean changes taking place within them. However, on closer inspection, it seems clear that the disagreements between the VofC literature and its critics run deeper than mere empirical disputes about the choice of measures or different assessments of whether the glass is half empty or half full.

Instead, scholars on different sides of this debate are in fact often looking for change on wholly different dimensions (Höpner 2007). Notably, as mentioned above, the VofC literature usefully directed our attention to the importance of employer coordination as a core underlying feature distinguishing LMEs from CMEs. The key difference is whether employers are capable of strategic coordination among themselves and with labor in order to achieve joint gains through cooperation (CMEs) or not (LMEs) (Hall & Soskice 2001, p. 8). Following this lead, a good deal of the literature on stability and change has been organized around evaluating how well employers' "coordinating capacities" are holding up. Thus, for example, based on a comprehensive statistical analysis of various aspects of coordination across the full range of advanced industrial democracies, Hall & Gingerich (2009) find that despite some changes, there remains a pronounced gap between LMEs and CMEs.

VofC critics are unlikely to be impressed by this, not necessarily because they dispute the empirics, but because they are not interested in employer coordination at all; they are looking at social solidarity instead. The original VofC framework was concerned primarily with the effects of institutions on economic efficiency, hence the focus on what (following Streeck 2009) we can think of as the "Williamsonian" functions of institutions—i.e., institutions as mechanisms through which firms can achieve joint gains through cooperation. Critics, by contrast, are really assessing something else entirely, namely the solidarity-enhancing effects of institutions, their "Durkheimian" functions—i.e., institutions as mechanisms that promote social cohesion.<sup>2</sup>

These differences in vantage point are rooted in wholly different intellectual and disciplinary traditions: VofC scholars generally come from an economic perspective, skeptics like Streeck from a sociological frame of reference. More important in the present context, however, such differences can contribute to "glass half-empty, glass half-full" dis-encounters because (as the example above shows) it is possible for firms to benefit from continued coordination with each other over some issues and for some employees, even while the number of workers encompassed by these arrangements declines. In such cases, one may not observe much movement on some of the usual measures of strategic employer coordination, but it is clearly hard to argue that important changes are not afoot. Indeed, these are exactly the kinds of trends that VofC skeptics are inclined to emphasize in an alternative account stressing the commonalities, rather than the varieties, of capitalism in the rich democracies—as expressed (these days) above all in shared pressures for decentralization and "flexibilization," as well as rising levels of inequality almost everywhere. Whereas VofC scholars emphasize continued relatively robust employer coordination in many (though not all) CMEs, liberalization theorists point to general trends and pressures, including the decline in union membership across LMEs and CMEs alike.

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

## DISENTANGLING THE RELATIONSHIP BETWEEN COORDINATED AND EGALITARIAN CAPITALISM

These deeper issues, I believe, lie at the heart of the current theoretical impasse in the literature on varieties of capitalism: not only are scholars in the two camps invoking different measures and interested in different kinds of outcomes, but in some ways they are operating on wholly different analytic planes. The debate as it has evolved, however, has mostly skirted these issues and instead been played out in the more familiar disagreements focusing on how far liberalization has taken CMEs toward LME-type arrangements—thus effectively situating countries on a single continuum and reducing the question of change to movement along that continuum.

Most importantly for the present discussion, the conventional posing of the question also (and for many of the same reasons) typically conflates the notions of “coordinated capitalism” and “egalitarian capitalism.” Empirically, these two phenomena seemed to coincide in what might in retrospect be thought of as the Golden Era of postwar capitalist development beginning in the 1950s. However, coordinated capitalism and egalitarian capitalism are analytically completely distinct, and historically by no means accompanied one another. By most definitions, the German political economy could be seen as strongly coordinated beginning already in the late nineteenth century, but as Hilferding (1910) among others clearly understood, this variety of capitalism could be associated with either progressive or deeply reactionary politics.

An important first question, then, is how to think about the relationship between egalitarian capitalism and coordinated capitalism. For a start, it seems important to note that observed cross-national variation and over-time historical analysis strongly suggest that the existence of strong and centralized business associations can be helpful (though clearly not sufficient) to achieving high levels of social solidarity. It is surely no coincidence that those countries that we associate with more egalitarian outcomes feature a high level of organization on both sides of the class divide, whereas the less egalitarian liberal market economies are characterized by both fragmented unions and weak employer associations (Kitschelt et al. 1999b). The symbiotic (not zero-sum) relationship between labor power and employers’ own coordinating capacities is not an obscure or purely academic point. Strong unions in Europe fully appreciate that centralized negotiations (whether state-sponsored tripartism or centralized bipartite bargaining) are simply not possible where employers are disorganized (Thelen & Kume 2006).

The causal mechanisms behind these correlations have been illuminated in historical research that shows that the strength of labor and capital often developed in tandem. Indeed, this literature encouraged us to associate coordinated capitalism with egalitarian capitalism because it focused on precisely those cases in which specific institutional arrangements fulfilled, simultaneously, Williamsonian and Durkheimian functions. Consider Streeck’s (1991) now classic analysis of “beneficial constraints”—a foundational work in the comparative political economy literature. Streeck’s argument for Germany is that politically imposed constraints blocked employers from pursuing their preferred (easier) low-wage strategies and instead, in Streeck’s memorable phrase, “forced and facilitated” their move up market into the ultimately more successful high-wage, high-value-added strategies for which they became famous. This is a story, in other words, of Durkheimian-inspired institutions with unintended Williamsonian side effects.

It can also happen the other way around. As an example, consider Swenson’s (1991) revisionist account of the institutionalization of centralized collective bargaining in Denmark and Sweden. Based on an examination of the archival record, Swenson shows that the origins of this institution were rooted partly in employers’ efforts to overcome debilitating collective action problems brought about by differences in the ability of firms in different sectors to absorb or pass on high labor costs. Here is a case, then, in which institutions adopted in part for Williamsonian reasons



proved (by virtue of their connection to wage leveling) to have Durkheimian side benefits. Either way, the point is that for historically tractable reasons, the institutions through which employers coordinated their activities were often empirically deeply entangled with the genesis of the institutions now associated with the more egalitarian models of capitalism.

Cross-national studies reinforced these ideas by showing that countries with higher levels of employer coordination were more successful in achieving an enviable combination of high efficiency *and* high social solidarity in the postwar period. Thus, CMEs featuring national coordination [what Kitschelt et al. (1999a) called “national CMEs”] typically scored highest on most measures of equality, whereas liberal countries scored the lowest. Cases of “sector-coordinated CMEs” like Germany (coordinated but at an industry level) came out in between, both on measures of coordination and on various measures of equality—not as egalitarian as Scandinavia but still more solidaristic than the Anglo-Saxon countries. The template we developed to sort and classify country-cases in many ways resembled the old corporatism literature, which arrayed countries along a continuum based on their degree of corporatism—with the important difference that now employer coordination replaced labor organization and strength as the master variable (see **Figure 3**).

Our models of change then followed the logic implied by these conventional understandings. So when countries such as Denmark and Sweden experienced strains in peak-level bargaining and underwent a shift to coordinated industry-level collective bargaining in the 1980s, many observers coded this as signaling the convergence of the “national CMEs” on the “industry coordination” model. For example, in a synthetic concluding essay to their important 1999 volume, Kitschelt et al. offered three “firm conclusions,” of which one was that “national and sectoral coordinated market economies are becoming more alike,” with “national CMEs” becoming more like “sectoral CMEs”—though neither was seen as converging on the liberal model (Kitschelt et al. 1999a, pp. 459, 444, 451; see also Pontusson 1997, Thelen 2001). In the meantime, however, the Nordic countries have regained their luster and with that their status as distinctly successful models of social solidarity and economic efficiency (Pontusson 2009); now it is the industry-coordinated systems like Germany that are often seen as fragile and changing in ways that take them toward the less egalitarian Anglo-Saxon model.

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



**Figure 3**

Varieties of capitalism and degrees of equality in the “Golden Era” of postwar capitalism.



Neither of these variables is solely a matter of institutions per se. Instead, the extent and use of employer coordination depend on the political coalitions on which institutions rest—and coalitions can and do change over time. To give an example, coordinating capacities with respect to worker training in Germany were first established in the artisanal sector. What we could call their solidarity-enhancing side effects grew as the system expanded in scope, first to encompass the machine industry and later to be imposed as a national and comprehensive model to which virtually all youth had access. Conversely, as the “reach” of the coordinated training system in Germany began to shrink in the 1990s, the result has been a rationing of apprenticeships within this still-coordinated system. Previously broad access to training had many solidarity-enhancing effects—above all, providing an avenue through which working-class youth could move into secure and well-paid jobs. Now, however, increased rationing of access to training fuels new kinds of inequality because those who fail to land an apprenticeship are doubly disadvantaged in the labor market—shunted into distinctly second-class training and stigmatized as second-rate prospects for later employment (Busemeyer & Iversen 2011, Thelen & Busemeyer 2011). The general point is that the extent to which the institutions that support employer coordination will have egalitarian side effects is partly a question of the scope of these institutions. This is an issue to which I have tried to draw attention by delineating what I call more segmentalist versus more solidaristic forms of coordination (Thelen 2004b).

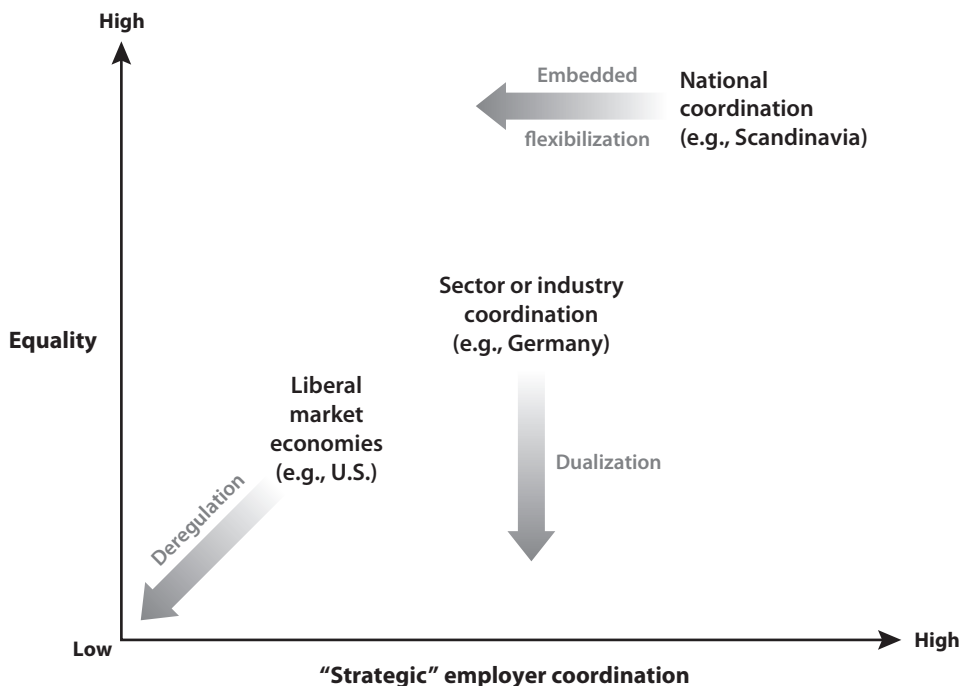
Beyond this, high capacity for coordination among employers has different consequences with respect to social solidarity depending on the functions to which this capacity is directed. Historically, employers in some of today’s most solidaristic countries originally organized not to cooperate with unions but to crush them (Paster 2009, Kuo 2009). This motive is of course not very solidarity-enhancing, even if—as again Hilferding (1910) especially reminds us—a high level of employer organization can later prove to be extremely useful (indeed, indispensable) for the political management of capitalism. The more general point is that the institutions for coordinated capitalism do not dictate the uses to which they will be put; that is a question of politics and not institutions.

Opening up the analytic space to disentangle the complex (and nonlinear) coevolution of egalitarian capitalism and coordinated capitalism allows us to move beyond the current terms of the debate, which is mostly organized around the questions of whether employers will abandon the institutions of coordination and/or whether labor is sufficiently strong to resist liberalization—or, alternatively, whether employer coordination is overall good or bad for social solidarity. It forces us to think harder about the coalitions and interests—who exactly is coordinating with whom, and to do what?—and how differences in the answers to these questions drive variation in the trajectories of change in the rich democracies.

## Varieties of Liberalization

Together with Peter Hall, I have argued elsewhere that “liberalization,” as typically invoked in the literature, is too encompassing to be useful in assessing the meaning and significance of the myriad developments this term subsumes (Hall & 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 United Kingdom in the 1980s, and both can reasonably be treated as cases of liberalization, broadly defined. However, it is not clear that the term provides us with the precise and discriminating analytic tool we need to grasp the rather different implications of different “liberalizing” moves.

Especially important for an analysis of political dynamics, there are vast differences in the political-coalitional alignments that lie behind what many scholars subsume under the broad



**Figure 4**

Revised hypothesized trajectories of change in the rich democracies. Three ideal-typical trajectories of liberalization might be: deregulation, often associated with liberal market economies; liberalization as dualization, associated especially with continental European political economies like Germany; and liberalization through socially embedded flexibilization, typically associated with the Scandinavian cases.

“liberalization” rubric. In some cases, e.g., the United Kingdom under Thatcher, liberalization is the result of battles in which interests cleaved largely along class lines, i.e., the familiar story of a neoliberal offensive that pits representatives of organized labor against employers. In other cases, e.g., Germany, it can be the result of a cross-class coalition that unites rather than separates segments of labor and capital (Thelen & Kume 2006, Palier & Thelen 2010). In still other cases, it reflects a more encompassing coalition that includes both low- and high-skilled workers—though one that presides over the implementation of policies that are distinctly market-promoting (e.g., flexicurity). The broad headline of liberalization conflates these very different political dynamics.

Simplifying greatly, we might distinguish three distinct ideal-typical trajectories of liberalization,<sup>3</sup> depicted in **Figure 4**. They correspond to (a) liberalization as deregulation, often associated with LMEs; (b) liberalization as dualization, associated especially with continental European political economies like Germany; and (c) liberalization through what we might think of as socially embedded flexibilization, typically most closely identified with the Scandinavian cases.

All three of these involve liberalization in the sense of an “expansion of market relations in areas that under the postwar settlement of democratic capitalism were reserved to collective political

<sup>3</sup>I am grateful to colleagues at the Max Planck Institute in Cologne, and in particular Martin Höpner, Wolfgang Streeck, Helen Callaghan, and Marius Bussemeyer, for emphasizing to me the importance of distinguishing different varieties of liberalization—though of course none of them is implicated in the particular way I have chosen to do this.

decision making” (Streeck & Thelen 2005, p. 30). But by distinguishing the three, we also recognize that liberalization can take many forms and occur under the auspices of different kinds of social coalitions—with implications for distributive and other outcomes.

Deregulation, as I am using the term here, involves an active (political) dismantling of coordinating capacities on one or both sides of the class divide. This variety of liberalization is often associated with what Streeck and I have called change through displacement (Streeck & Thelen 2005) because in these cases institutions and mechanisms for collective labor regulation are explicitly set aside in favor of arrangements that reimpose “the market.” Examples would include the demolition of systems of compulsory arbitration and court-based coordination in Australia and New Zealand (Kitschelt et al. 1999b, pp. 431–32) or, more recently, the assault on collective bargaining rights of public-sector unions in Wisconsin. This kind of direct frontal assault on institutions supporting the collective regulation of labor relations is most closely associated with what Hall & Soskice call liberal market economies (LMEs), an association that is not wholly surprising, since history suggests that where employers do not themselves possess stable coordinating capacities, they will press vigorously to weaken unions as well.

Dualization, by contrast, does not involve a direct attack on institutions for collective regulation but transpires instead through the differential spread of market forces. Traditional arrangements for labor-market insiders are maintained even as an unorganized and unregulated periphery is allowed to grow that is characterized by inferior status and protections for labor-market outsiders (Rueda 2007, Emmenegger et al. 2011). Dualization takes many forms, for example, maintaining strong employment protections for regular workers while the number of atypical or “irregular” workers grows, or defending traditional institutions for firm-based training even as the number of opportunities for landing an apprenticeship shrinks, or continued centralization of bargaining but covering fewer sectors and workers, to name a few manifestations. Unlike deregulation, which proceeds through a direct assault on traditional institutions, dualization often proceeds through a process of institutional drift (Hacker & Pierson 2010). In the current period, this frequently occurs as institutions and practices that were developed for manufacturing industries fail to take hold outside the industrial core. For example, if membership in unions and employer associations is heavily concentrated in industry, then collective bargaining institutions will erode “by themselves” as employment shifts to the service sector. The political dynamics associated with dualization are also distinct. Whereas deregulation involves a neoliberal offensive in which class cleavages dominate, dualization can be fueled in part by an intensification of cooperation between labor and management in core firms and industries to the extent that developments in the core leave other firms and workers “behind” or “outside” (Thelen & Kume 2006, Palier & Thelen 2010).

Embedded flexibilization, finally, involves a combination of market-promoting labor-market policies, but combined with social programs designed to ease the adaptation of society, especially its weaker segments, to changes in the market (flexicurity). While social protections remain strong, the thrust of policy is organized less than before around protecting individuals from the market and more around facilitating their successful (re)integration into it (i.e., not protection but activation). Although the efficacy of such policies seems to depend in part on the existence of strong business associations (see especially Martin & Swank 2012), policies and institutions are not necessarily focused on the kind of strategic coordination long associated with CMEs (e.g., encouraging employment stability or underwriting employees’ investments in specific skills). Instead, they are premised on making workers more mobile and on (usually heavily state-sponsored) training to ensure a high level of general skills, both through a nonstratified public education system and through continuous retraining. Other authors have done a great deal to work out the policies that are most closely associated with continued egalitarianism in the postindustrial era and find that the centerpiece of such

trajectories is active labor-market policy (ALMP) (Rueda 2007, Martin & Swank 2012). The point I want to underscore here, however, is that the turn to flexicurity (and accompanying increased investment in ALMP) involves a reorientation of the objectives traditionally pursued in national tripartite bargaining—crudely: a transition from negotiated wage restraint in the context of a more or less unwavering government commitment to full employment, toward the management of activation and human capital development in the context of non-accommodating macroeconomic policies. This represents change through conversion, as existing institutional resources are turned to new goals based on a significantly reconfigured social coalition.

Opening up the analytic space in this way allows us to see combinations that are difficult to analyze (even hard to conceive) within the context of traditional one-dimensional models of change in which coordination and social solidarity are tightly coupled, either implicitly or explicitly. Dualization, for example, precisely involves declining equality but in the context of continued significant coordination for core firms and sectors. Embedded flexibilization, conversely, involves continued high levels of equality but in the context of policies that can only be characterized as liberal, in the sense of market promoting—indeed, radically so, since they are specifically not premised on protecting workers from the market but on actively adapting their skills to what the market demands (if anything, commodification rather than decommodification of labor).

The next section considers how well the existing literature explains these divergent trajectories of change. I examine the strengths and weaknesses of three especially prominent theories—power-resource theory, labor-market dualism theory, and corporatism theory—before outlining an alternative political-coalitional approach.

## **EXPLAINING TRAJECTORIES OF CHANGE IN ADVANCED POLITICAL ECONOMIES**

### **Power-Resource Theory**

One of the most prominent and powerful arguments in the literature on the political economy of advanced capitalism attributes different levels of equality and social solidarity to the strength of organized labor (see especially Korpi 1983, 1989). In the Golden Era of full employment, employers may have gone along grudgingly with relatively generous social policies, and in some cases even eagerly participated in coordinated bargaining with unions for purposes of negotiating wage restraint. However, the current period of high unemployment destabilizes such arrangements because employers can now rely on the discipline of the market to secure moderate wages. In this view, employers' first choice would be full deregulation, but where they cannot avoid unions altogether, they might settle for other measures that provide the flexibility they demand, e.g., more differentiated wages and working times. Power-resource theory holds that the stronger the labor movement, the more such pressures can be resisted, thus preserving higher levels of social solidarity.

In most versions of the argument, there are two facets to labor's power resources. One aspect is simply the organizational strength of labor unions, often measured in union density. The other is the relative power of labor's political allies, especially social democratic political parties, and this is usually captured in a measure of left party participation in government and number of cabinet posts held. The two aspects of labor power frequently covary, and the usual power-resource argument yields three distinct clusters of countries that correspond to Esping-Andersen's (1990) classic threefold typology. Social Democratic countries are characterized by both high levels of union organization (density rates of 60% and higher) and social democratic parties that are frequently in government; Christian Democratic countries are characterized by medium levels of

union organization (typically 20%–40%) and somewhat less dominant social democratic parties; and in liberal countries, unions are weak (<15%) and social democratic parties are either weaker still or altogether absent.

Power-resource theory provides a compelling first-cut explanation of significant and enduring differences across the usual three clusters of countries. The evidence in favor of a negative relationship between labor strength and various measures of poverty and inequality seems incontrovertible (see especially Stephens et al. 1999, Swank 2001). Moreover, with some notable exceptions (e.g., Rueda 2007, discussed below), most analysts agree that the impact of common trends such as globalization or deindustrialization is heavily mediated by the strength of left political parties (e.g., Iversen & Cusack 2000). However, some of the more intriguing puzzles defy explanation in power-resource terms. For example, the Netherlands and Germany have moved on rather different paths since the 1980s, with the Netherlands embracing a variation on flexicurity and achieving significant employment growth while Germany has moved strongly in the direction of dualization in the context of persistent long-term unemployment and rising inequality. This difference is not obviously linked to labor's power resources, since both countries feature medium (and declining) unionization rates and dominant Christian democratic parties. Moreover, Sweden has struggled more with tendencies toward dualism (e.g., especially Davidsson 2010) than Denmark, despite stronger "power resources" whether measured by unionization rates or left party dominance.

Equally importantly, we also have to ask whether the causal mechanisms at the heart of power-resource theory have "legs" when we examine at close range the express interests of various groups and the specific policy processes of relevance to the outcomes in which we are interested. Power-resource arguments in many cases involve the claim that globalization is what drives the trend toward deregulation, by empowering (mobile) capital vis-à-vis (nationally anchored) unions. But on closer inspection the picture seems a little more complicated. In many cases, manufacturing employers—though most clearly impacted by globalization—are not always the ones most urgently calling for institutional reconfiguration. Consistent with a VofC logic, these firms are often rather heavily invested in competitive strategies that rely on high-quality production, firm- or industry-specific skills, and peaceful labor relations, and therefore continue to be more invested in traditional institutions than, say, employers in lower-wage, lower-skill service sectors. The counter hypothesis (explored elsewhere, e.g., Palier & Thelen 2010; also Thelen 2011) is that where manufacturing interests dominate the interest associations, the trend is likely toward dualization rather than across-the-board deregulation.

### **Labor-Market Dualism Theories**

The idea that employer preferences may be less obvious (and less uniform) than commonly assumed finds a corollary on the labor side in an alternative explanation of the trends documented above. Rueda (2007) flips the power-resource theory on its head by suggesting that powerful social democratic parties allied with strong labor movements may well promote, rather than inhibit, inequality. Drawing on early labor-market "segmentation" theories (coming from writers on both the left and right), Rueda has forcefully argued that contemporary market trends have heightened conflicts between labor-market "insiders," i.e., core workers who have jobs and who are intent on preserving their relatively privileged position within the labor market, and labor-market "outsiders" who either do not have jobs or are in more precarious forms of employment and thus do not enjoy the same package of wages and benefits as insiders. As egalitarian as their policies and preferences may have been in the past, the ongoing fiscal crisis of the state now confronts social democratic parties and governments with a more zero-sum choice between vigorously defending the interests of labor-market insiders and taking up the cause of labor-market outsiders. Rueda's

contention is that the dynamics of electoral competition push social democratic parties to resolve this dilemma by promoting the interests of insiders—against, and often at the direct expense of, labor-market outsiders.

One of the strengths of this argument is that it disaggregates the interests of the working class, and in so doing highlights the potential for intra-class conflict over policy options. Just as employers are often divided as a consequence of their different production systems and strategies, so too are workers (and would-be workers, i.e., the unemployed) divided on their policy preferences based on their situation in the labor market with respect to current and future employment options. Rueda is certainly right about the dilemmas social democrats face in the current period, and yet cross-national comparisons continue to show that inequality, by almost all measures, is lowest in countries where social democracy is strongest (Pontusson 2009).

Such findings seem more closely aligned with an alternative version of the dualism thesis, based on Esping-Andersen's classic "three worlds of welfare," which emphasizes an institutional rather than an electoral logic. Esping-Andersen links dualism not to social democracy but to the logic of conservative welfare regimes of the sort found throughout much of continental Europe. These welfare regimes are based on a social insurance model in which benefits are tied to occupational status. Such systems are more prone than others to the emergence of an "insider-outsider" divide, "with a small, predominantly male, 'insider' workforce enjoying high wages, expansive social rights and strong job security, combined with a swelling population of 'outsiders' depending either on the male breadwinner's pay or on welfare state transfers" (Esping-Andersen 1999, p. 18). Similar to Rueda, Esping-Andersen argues that in such regimes "voters and trade unions will defend the existing rights of the 'insiders' as forcefully as possible" (Esping-Andersen 1999, p. 19). But his analysis leads to different predictions from Rueda's version of the dualism argument, for by Esping-Andersen's logic, Christian democratic countries are more susceptible to dualism, i.e., welfare regime type, not the electoral dilemma confronting social democrats, drives these outcomes.

These debates have so far been inconclusive, and one reason is that much of the work on dualization, though firmly anchored in the literature on welfare and social policy, is only tenuously connected to VofC debates. In consequence, most of this work does not consider the ways in which producer-group politics and the dynamics of change in complementary institutional arenas (industrial relations and training, for example) impinge on and interact with social policy outcomes (exceptions include Iversen & Soskice 2009b and Palier & Thelen 2010).

### **Macro Corporatism and the Role of the State**

One body of work that does try to probe these linkages is the literature on macro corporatism. Observing policy responses to the oil shocks of the 1970s, early corporatism theorists sought to explain how Europe's smallest and most export-dependent economies had been able to sustain an enviable combination of strong economic performance and high equality in a period of intense market turmoil. They attributed the success of these "small states in world markets" (Katzenstein 1985) to the existence of national-level bargaining and tripartite channels for interest intermediation that facilitated constructive trade-offs between unions, business associations, and the state.

Martin & Swank (2012) and Wilensky (2012) extend this argument to the current period. They suggest that macro corporatism continues to produce higher levels of social solidarity by promoting ongoing compromise among groups with divergent economic interests. For both Martin & Swank and Wilensky, macro corporatism is a structural feature of some but not all CMEs, and one that has deep historical roots. The causal mechanisms behind these arguments operate at the level of preference formation, national-level corporatism being seen as capable of reshaping the preferences of the key actors (in particular, employers) by allowing them to see how their



long-term interests would in fact be served through cooperation. For example, Martin & Swank (2004, pp. 593, 592) suggest that a high degree of employer organization “transforms employers’ preferences for social policy” by inspiring “greater attention and commitment to collective goals than are found among less organized employers.”

Corporatism theorists past and present can point to compelling evidence of a strong association between tripartism and social solidarity, so something is clearly going on here. However, there seems to be significant variation over time in how and how well tripartism works to generate consensus and positive outcomes. Denmark and Sweden—classic cases of corporatism—have both experienced spells of serious economic distress and intense distributional conflict. It was not so long ago that Schwartz (1994) redubbed these countries “small states in big trouble.” Both have also experienced very significant neoliberal interludes in which bourgeois governments (or, in some cases, social democratic Finance Ministers with neoliberal leanings) introduced policies that represented a rather sharp break with the traditional model (especially with respect to macroeconomic policy). Despite strong legacies of corporatism and tripartite bargaining structures, these were periods not of consensus but of intense conflict, in which politics also flowed outside the usual peak bargaining channels.

Similar observations could be made about other countries featuring strong tripartism. For example, although some have been quick to attribute the Dutch employment “miracle” (sharply reduced unemployment and even significant employment growth) to the famous tripartite Wassenaar Accord of 1982, such accounts tend to downplay the fact that the previous “Dutch disease” in the 1970s (debilitating inflation through wage indexation, skyrocketing labor costs through promiscuous use of disability pay to ease downsizing) can also be traced to the impact of policies coming straight out of corporatist bargaining processes. Just as employer coordination, historically, could take on reactionary or progressive functions in different periods, so too apparently can corporatist bargaining produce a variety of outcomes, some more desirable than others.

The heavy emphasis on structure (specifically, the existence of tripartism or not) that is characteristic of the corporatism literature tends to blend out the political maneuvering and conflicts that animate, complicate, and sometimes in fact derail peak bargaining even in the “most corporatist” countries. An example is the abrupt withdrawal of employers in Sweden from central bargaining arrangements and the dismantling of the peak employers association—a move precisely designed to thwart continued corporatist bargaining (Kjellberg 1998, p. 93). Such instances appear at odds with the logic of recent corporatist theory, which emphasizes capitalists’ willingness and capacity to learn through negotiation and consultation and to embrace policies that serve their long-run interests. These observations seem to point instead in the direction of Streeck’s argument that capitalists will seek “wherever they can . . . to *avoid learning*,” which in turn should remind us that power—in corporatist negotiations as elsewhere—“amounts to a license to refuse to learn” (Streeck 2004, p. 436; see also Deutsch 1963, p. 111).

In light of this, it comes as no surprise that many of the most famous (and famously successful) corporatist bargains—Wassenaar comes to mind—were shotgun weddings arranged in the shadow of hierarchy (Scharpf 1997, van Wijnbergen 2002; also Baccaro & Howell 2010, p. 39). This point has not been lost on second-generation corporatism theorists, and some authors therefore embrace a somewhat different though complementary argument about state capacity (in the tradition of Skocpol 1985; see, for example, Martin & Thelen 2007). What is foregrounded now is the capacity of the state to cajole and coerce key private-sector actors into agreement (or at least compliance) at key junctures. In these versions, the idea that capitalists can be persuaded to act in their enlightened (long-term) self interest is supplemented or even replaced with the idea that solidarism has to be imposed on resistant employers by powerful state actors.



State capacity and state power clearly matter. What we know from the historical record is that state power was frequently crucial in explaining the origins of many of the institutions of coordinated capitalism, not least in the way that interventions by state actors facilitated employers' overcoming their own collective action problems (Crouch 1993, Thelen 2004a). State capacity also matters today. To continue with the previous examples, like some Scandinavian countries (and unlike Germany), the Dutch state in the 1980s and 1990s did indeed possess some very strong tools with which to elicit compliance from reluctant employers and for that matter reluctant unions as well. The most important tool in the arsenal was the ability of the government to intervene directly in wage bargaining and impose settlements if the social partners could not come to agreement. This was a power that was repeatedly invoked through the 1970s, and it continued to play a decisive role in crucial peak-level bargains well into the 1980s. It is a tool that is utterly lacking in Germany, where collective bargaining autonomy is officially enshrined in the constitution, and this clearly contributed to the failure of tripartite bargaining in that country (Streeck 2005).

But strength is inherently a relational concept, so in order to make sense of divergent trajectories of change, what we really need to know is "strong in relation to whom?" This is where corporatism theory (and structural explanations generally) fail us, for they have little to say about the actors that inhabit these structures and the interests they seek to pursue within and through them. This is where a political-coalitional approach can help us forward.

### Political Coalitions and the Politics of Change

The argument sketched out so far suggests the need to rethink some of the foundational assumptions that pervade the literature and in particular the frequently drawn distinction between "inegalitarian liberal" and "egalitarian coordinated" capitalisms. The VofC literature encouraged us to think in dichotomous terms about political economies premised (predominantly) on either "strategic" or "market" coordination. The CMEs that we associate with more egalitarian outcomes are seen to be based on various arrangements that attenuate (if not actively interfere with) the free play of market forces. Such countries feature (*a*) more patient capital, which supports (*b*) long-term employment relations, which are in turn associated with (*c*) stronger social protections (especially against the risk of unemployment), which also then support (*d*) investments in dedicated assets, including most prominently "specific" rather than "general" worker skills.

These formulations are rooted in a distinctly industrial logic. However, as important as manufacturing remains to many of these economies (although that varies cross nationally), for the politics it matters that manufacturing makes up a small and shrinking share of total employment (currently between 10% and 20%) in all these countries. The shift in employment toward services upsets previous political dynamics because service-sector firms make different kinds of demands on unions and on policy makers than their counterparts in industry. If anything, the service sector thrives more on general skills—whether at the high end (e.g., software engineering, which involves broad technical training) or at the low end (e.g., retail and hospitality industries, where there is a premium on social and communication skills) (see also Gingrich & Ansell 2011). Related to this, labor mobility plays a very different, more prominent, and often positive role in emerging service sectors. High-end manufacturing may flourish in an environment characterized by employment stability (which allows firms and workers to amortize investment in firm- or industry-specific skills and which supports long-term cooperative relations between management and unions), but in high-end services, labor mobility often plays a crucial role in promoting skill acquisition—among other things, by providing a mechanism to ensure that the general skills in which a worker invests will be valued at full marginal product (Becker 1993, p. 34). At the low-skill end of the spectrum as well, a high-quality public school system that provides foundational general skills is

arguably better equipped than traditional firm-sponsored apprenticeship training to generate the kind of social and communication skills that lower-level service-sector jobs demand.

On the labor side as well, the shift to services has brought new interests to the fore—perhaps especially importantly for the politics, those of a growing number of working women. Female employment both fuels and is fueled by the growth of the service sector, as women’s entry into employment is premised on the availability of services formerly provided within the home, and as women are also overwhelmingly the providers of these services in the market (Huber & Stephens 2000). Here too it is not at all clear that the interests of these new constituencies are always well served by the arrangements that were so important in the era of manufacturing dominance. To give just one example, firm-based apprenticeship training has in the past provided for a smooth school-to-work transition in countries like Austria, Germany, and Denmark, but research has shown that women are distinctly disadvantaged by these arrangements (Estevez-Abe 2006) and do much better (also better than their male counterparts) in school-based training (Baethge et al. 2007, ch. 3). Moreover, so long as social protections are strong, more fluid labor markets may be more congenial from the perspective of workers whose employment records are more likely to be interrupted for family reasons.

Understanding the politics of institutional change in the rich democracies today requires that we acknowledge the profound shift in the political-economic landscape that has occurred over the past few decades. Much of the existing literature focuses on pressures caused by globalization, but when it comes to the politics, the more important changes are related to the growth of services (Iversen & Cusack 2000). The impact of this trend depends heavily on interest group configurations and partisan alignments inherited from the past. Most analyses of different trajectories of change (e.g., the difference between what I am calling embedded flexibilization and dualization) focus, not unreasonably, on the politics in the period of austerity, scarcely venturing back before about 1980. But it seems clear that current political dynamics are profoundly shaped by the legacy of policy choices that date back to the Golden Era itself. For example, in social democratic countries, the modal response to labor-market shortages in the 1950s and 1960s was to mobilize women, whose entry into the labor market in turn fueled demand for an expansion of services to support female employment (Huber & Stephens 2000, p. 327; see also Pontusson 2009). Christian democratic countries, by contrast, did not encourage women to enter the labor market and frequently turned instead to state-sponsored “guest worker” programs to cover labor-market shortages. Women, meanwhile, stayed home in large numbers and continued to support a traditional male-breadwinner model through their role as crucial providers of unpaid care-giving services (Orloff 1993).

These differences have had important consequences for both producer-group and electoral politics in the current period. In social democratic countries, a well-organized public sector emerged as an important second pillar within the organized labor movement, and one that represented a very different constituency from traditional male-dominated manufacturing unions. In fact, by now women constitute a majority within the organized labor movement in many of these countries. The electoral impact of past policies is also important, for as Huber & Stephens (2000, p. 327) point out, the mobilization of women and the expansion of the public sector transformed women into a reliable core constituency for social democracy and the welfare state, thus “reversing the traditional direction of the gender gap” in electoral politics (see also Steinmo 2010, p. 59).

In the Christian democratic countries, by contrast, the public and service sectors remained smaller (especially in relation to manufacturing). With respect to organized interests, what this meant was that the interests of manufacturing continued to dominate both producer-group politics and public policy. In these countries, the structure of union membership often continues to reflect employment patterns of the 1950s and 1960s—heavily concentrated among male blue-collar

workers in manufacturing and weak in services. By the time larger numbers of women began entering the labor market in the 1980s and 1990s, the economic context had shifted considerably—from one of labor-market shortages and relative prosperity, to one of high unemployment and fiscal austerity. Indeed, in these cases what often drew women into employment was the need to supplement family income (i.e., as secondary earners) in a period of heightened economic insecurity.

The underdevelopment of the public sector and the late entry of women had electoral consequences as well, because the alliance between working women and left political parties that Huber & Stephens (2000, p. 335) reveal to be such a powerful political force in social democratic countries never materialized in the Christian democratic cases. Quite the opposite: where traditional family structures persisted longer, women continued to rely heavily on benefits through their husbands, many of whom were employed in manufacturing, thus institutionalizing pressure for fiscal restraint and pushing against strong redistributive social spending. Based on an analysis of 10 rich democracies, Iversen & Rosenbluth (2010, p. 142) find that married housewives in countries dominated by traditional family structures are politically conservative and rationally refrain from supporting policies that may raise taxes on male insiders.

These are some of the ways in which past choices and policies influence political possibilities today. The more general point is that where organized interests and producer-group politics continue to be dominated by manufacturing, and where public policy continues to be organized strongly around the specific interests of industry, the dominant trajectory of change is often toward increasing dualism. For all the reasons laid out in the VofC literature, manufacturing firms and their workers can be expected to jointly defend traditional institutions and practices for themselves, while on the unorganized periphery, new (less cooperative, more flexible, and less secure) patterns of employment emerge—i.e., dualization through drift. In such cases, manufacturing employers will not necessarily be at the forefront of demands for deregulation, but neither can they be expected to oppose dualization, since export-oriented firms benefit doubly from the growth of a more flexible periphery—both through lower service prices and through lower taxes.<sup>4</sup> Unions in such cases may well oppose these developments, but being only weakly anchored in the service sectors, they will be poorly placed to counter these trends.

By contrast, where the most vulnerable groups (service-sector workers generally, including public-sector employees negatively affected by the fiscal crisis) are well organized and incorporated into institutionalized decision-making venues, both producer-group politics and electoral dynamics can pave the way for more encompassing reform coalitions. In such cases, public policy may come to reflect a somewhat different logic—oriented toward generating high-quality general (not just specific) skills, and compatible with a rather different formula for employment security that is rooted not so much in job protection in the traditional sense but in labor flexibility combined with enhanced social support and training. Manufacturing interests will certainly continue to play a strong role, not least because much of the emerging service economy continues to rely on a vibrant manufacturing base. But where other interests (outside manufacturing) are also well entrenched in the union movement and in partisan competition, there exist institutionalized pressures that push against dualization (e.g., through continued broad collective bargaining coverage) and/or that provide incentives for policy makers to re-embed flexibilization in compensatory social policies (e.g., through activation accompanied by aggressive training and continued strong social protections).

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<sup>4</sup>Thanks to Martin Höpner for emphasizing this to me.

## CONCLUSION

Many of the developments sketched out above will be difficult to grasp within the context of prevailing frameworks and debates, which as indicated tend to associate “coordinated” with “egalitarian,” and “liberal” with “inegalitarian,” capitalism. So long as VofC’s proponents and detractors alike debate developments based on an undifferentiated notion of liberalization, it is hard to imagine scenarios that combine elements of “market coordination” and flexibilization with continued high social solidarity on one hand, and continued “strategic coordination” and traditional protections with rising inequality on the other hand. Precisely these combinations, however, may better characterize the outcomes we observe (especially among CMEs) in the current period. Thus, for example, Germany and Japan resist liberalization in the sense of an across-the-board deregulation and a direct move toward the LMEs, while however also registering a steep increase in inequality. Other countries, like Denmark and Sweden, have maintained high (even increasing) levels of equality even as they expand massively the reach of policies (especially ALMPs) that can only be characterized as market countenancing, even market promoting, since they are explicitly not premised on protecting workers from the market but instead on actively encouraging their adaptation to it.

To return to **Figure 4**, I suggest that CMEs in particular increasingly find themselves pushed in one of two directions. Some countries have clearly taken the route of dualization, preserving traditional protections but for a shrinking core. By contrast, the countries that maintained high levels of equality are not those that are defending traditional labor-market policies and practices but those that embrace some elements of “market” as opposed to “strategic” coordination—alongside (or in some cases followed by) compensatory social policies that prevent a slide into the inegalitarian Anglo-Saxon model—thus migrating toward the northwest rather than the southwest quadrant of **Figure 4**.

The political-coalitional approach sketched out in broad brush strokes here draws on the strengths of all three of the schools of thought reviewed earlier. From the power-resource theorists it takes the insight that employer interests are conceived and articulated in a context in which the power and organization of labor are a key fact around which employers must organize their strategies and goals—although I do not see the decisive conflicts of interest as cleaving inevitably or exclusively along class lines. Instead, from the dualism theorists I take on board the insight that contemporary market trends complicate unity on the labor side through their differential impact on workers in different sectors and different kinds of positions in the market. And with the corporatism theorists I argue that a high level of employer organization is a crucial precondition for continued high levels of social solidarity—although I draw a clearer distinction between the structure and the content of tripartite bargaining in order to move beyond the idea of corporatism as a static feature of countries, and to focus instead on ongoing renegotiation and contestation over the form and the functions of corporatist bargaining over time.

Coming back, finally, to the debate between VofC and its critics, I submit that we do not have to choose between the alternatives as typically presented in the literature—between the reproduction in perpetuity of varieties of capitalism that emerged in the nineteenth century, on one hand, and egalitarian capitalism as a fleeting model of the 1960s and doomed to inexorable exhaustion, on the other. An examination of the political-coalitional underpinnings of the institutions of coordinated capitalism reveals ongoing contestation and in some cases significant shifts. The core claim here is that the institutions that in the past have supported the more egalitarian varieties of capitalism may survive least well where they continue to rely solely on the coalitions of the past, and remain most robust where they have been carried forward by new social coalitions and turned to significantly different ends.

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## Errata

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