

**PUTTING THE POLITICAL BACK INTO POLITICAL ECONOMY
BY BRINGING THE STATE BACK IN YET AGAIN**

Vivien A. Schmidt

Jean Monnet Professor of European Integration
Department of International Relations
Boston University
152 Bay State Road
Boston MA 02215
Tel: 1 617 3580192
Fax: 1 617 3539290
Email: vschmidt@bu.edu

Forthcoming: *World Politics* July 2009.

Revision of a paper prepared for presentation to the Garnet-JERP 5.2.3 Conference: 'The Transformation of the State: The EU, new regionalism, multilateralism, and globalization.' Institute for European Studies, Université Libre de Bruxelles (Brussels, Nov. 28-29, 2007) which itself revises part of a paper prepared for presentation for the panel: 7-5 *Explaining institutional change in different varieties of capitalism* of the Annual Meetings of the American Political Science Association (Philadelphia, PA, Aug. 31-Sept. 3, 2006).

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ABSTRACT

Dominant theoretical approaches in political economy today, whether they posit convergence to neo-liberal capitalism, binary divergence of capitalisms, or tripartite differentiation of financial governance, downplay the importance of state action. Their methodological approaches, rational choice and historical institutionalism, tend to reinforce their substantive theories either by disaggregating the state into its historical institutional components or by focusing on the strategic actions of its rational actors. This paper argues that by not taking state action seriously, they are unable to explain the differences in degree and kind of countries' neo-liberal reforms. For this, we need to bring the state back in, and to put the *political* back into political economy not just in terms of political economic institutions but also in terms of policies, polity, and politics. To explore the political in all its variety, however, the paper demonstrates that we also need at least one more methodological approach, discursive institutionalism, which, by taking the role of ideas and discourse seriously, brings political actors as sentient beings back in. This in turn also enables us to explain the dynamics of neo-liberal reform in political economy.

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How do we explain why some advanced capitalist countries have gone farther in their neo-liberal reforms than others? Or why countries with similar capitalist systems have taken different paths to reform while countries with different systems have taken similar paths? Mainstream theoretical approaches in political economy have difficulty responding to these questions for two reasons. First, whether they theorize capitalist convergence to a single neo-liberal model, divergence to two varieties of market economies, or differentiation into three coalitions of financial capitalism, such approaches tend to underestimate if not ignore the importance of one crucial player: the state. Second, their analytic frameworks reinforce this neglect of the state at the same time that they emphasize continuity over change—whether the historical institutionalist approach (HI) which reduces the state to the rules and regularities that shape political economic institutions' path dependent development or the rational choice institutionalist approach (RI) which limits the state to the incentive structures that constrain political economic actors' rational choices.

As a result, the dominant approaches in political economy have lost sight of the importance of the state in all its complexity. But what is 'the state?' Here, I use the term as a shortcut for the range of public institutions and actors which, whether alone or in interaction with private actors and institutions, can have a major impact on what happens in national political economies in a variety of ways. The state is not just the political economic setting which structures the actions of private political economic actors, as posited by mainstream political economy. It also constructs the policies for reform; it constitutes the political institutional setting that shapes the reform process; and it can also be the political driver for reform.

The state's significance for comparative political economy can be differentiated in four basic ways: 1) As political economic setting, the state defines the different institutional patterns of public action in national varieties of capitalism, including not only the 'liberal' state of liberal market economies or the 'enabling' state of coordinated market economies but also the 'influencing state' of 'state-influenced' market economies. 2) In terms of policy, the state stands not only for the substantive content of policies which may alter HI macro-historical institutions and RI incentive structures, but also for their effects on different varieties of capitalism, as they don't simply move such varieties along a continuum from *faire* (state action) to *laisser-faire* (market action) but rather push them toward *faire faire* (state setting guidelines for market action) or *faire avec* (state action with market actors). 3) As 'polity,' the state constitutes the political institutions that frame the interactions among political and economic actors. These may be stylized as 'simple' polities in which governing activity is channeled through a single authority or 'compound' polities in which governing activity is dispersed through multiple authorities. 4) With regard to politics, the state consists of actions resulting not just from the strategic interactions among RI actors in HI macro-historical contexts but also from the kinds of interactions analyzed by the newest of the 'new institutionalisms'—discursive institutionalism (DI)¹—which are driven by the substantive content of ideas and the interactive processes of discourse. By focusing on the discursive political coordination, communication, and deliberation at the basis of public action, DI provides a way into the explanation of the dynamics of

institutional change. It serves to offset the highly static approaches of HI and RI by explaining the reframing of strategic action and the reshaping of institutional practices through ideas and discourse.

It is only very recently that political scientists have begun to try to complete the picture with regard to the role of the state using a full range of variables.² In countries as diverse as the Netherlands, France, Britain, Germany, Japan, and the UK and in sectors as different as the digital economy and the global services market, such scholars show that the state continues to structure markets in significant ways, developing new missions and making critical choices that, as Levy remarks, are the “product of power and politics, not just path-dependence and employer ‘coordination’.”³ They also call attention to the state-like activity of international and regional economic organizations, and how they shape the global rules.⁴ For European countries in particular, moreover, scholars have pointed to the fact that the state-like activities of the European Union have been a greater force for change than even globalization, with effects on EU member-states’ political economies,⁵ welfare states,⁶ and even democracies.⁷

This article adds a theoretical dimension to the recent literature. It begins with a brief review of mainstream approaches to political economy before outlining the political economic bases of state action in different varieties of capitalism. It then goes on to consider state action with regard to, in turn, policy, polity, and politics, all the while also noting the ways in which different institutionalist approaches treat such variables. The article illustrates its arguments with examples from the reform experiences of countries characterized by different varieties of state action, ending with in-depth case analyses of countries that exemplify three ideal-typical kinds of state action, Britain, German, and France, to demonstrate the value of also taking into account the role of ideas and discourse in political economic reform.

BRINGING THE STATE BACK INTO POLITICAL ECONOMY

Scholars have only recently started taking the state seriously, yet again. Although the state was center stage in the 1960s, in Shonfield’s three models of capitalism—liberalism, statism, and corporatism,⁸ it subsequently dropped out of view from the 1970s to the mid 1980s, eclipsed by neo-corporatism.⁹ The state came ‘back in’ in the late 1970s and early 1980s, as scholars noted the autonomous role of the state in the reorganization of national economies in the face of economic crisis,¹⁰ only to fade away again. This is because the very scholars who had brought the state back in began to disaggregate it into its component parts using the analytic framework of historical institutionalism (HI), concerned with institutional regularities and path-dependent development.¹¹ Around this same time, moreover, rational choice scholars also conceded that institutions mattered, although their analytic framework of rational choice institutionalism (RI) instead posited rational actors engaged in strategic calculations in response to institutional incentives.¹² The upshot of the development of these two ‘new institutionalisms’ has not so much been that the state was thrown ‘back out’ as that it became lost in the background, significant mainly for its path dependent effects or for structures of incentives.

Events—in particular the rising pressures of globalization and regionalization, in particular with regard to the European Union, along with the state’s own actions in liberalizing, deregulating, and privatizing--also conspired to devalue the state as a focus of research.¹³ By the mid 1990s, large numbers of political economists had become convinced that the state was

now eclipsed by business in a world economic system in which capitalism was converging on a single neo-liberal model.¹⁴ These convergence theorists' views were countered by scholars who argued that the state continued to be a relevant actor, with deregulation leading simply to reregulation of a different kind, and national divergence continuing in all aspects of capitalist economic organization.¹⁵ But the most prominent of divergence theorists, those loosely clustered around the 'Varieties of Capitalism' school (VOC), also downplayed the role of the state.¹⁶

Theorists in the VOC school posit a binary division of capitalism into two main varieties, liberal market economies (LMEs) and coordinated market economies (CMEs). They share the convergence theorists' basic assumption that the state has little role to play beyond that of creating a positive regulatory environment in a global economy dominated by firms. Moreover, VOC's analytic framework, which combines HI and RI, only further downplays the role of the state at the same time that it also has great difficulty explaining change. VOC is HI in its attention to the macro-historical rules and regularities that shape economic actors' liberal or coordinated market practices and it is RI in its focus on the micro-foundational logic of coordination games among firms and other relevant actors in liberal or coordinated market economies. The result is an approach which is highly static, given its combination of two equilibrium-focused analytic frameworks, in which change is largely unexplainable because it comes from the outside. For HI, change has long been explained mainly either by 'critical junctures',¹⁷ with little or no change in periods of stability, or by 'path dependence,' in which 'positive feedback mechanisms' allow for very little real change outside the initially prescribed paths.¹⁸ RI, which focuses on coordination games, is even less able to deal with change, since in order to be able to map the logic of interaction among rational actors, it has to presuppose fixed preferences and stable institutions; it therefore posits change as the result of 'exogenous shocks,' while preference formation is outside its purview.¹⁹ The result is a very static depiction of capitalism which critics have also found overly functionalist and unable to account for the changing conditions resulting from global and regional economic and institutional forces.²⁰ Recent revisionist approaches to HI, which describe incremental change through endogenous processes of layering, conversion, and drift, do offer a way out of the HI statics of VOC.²¹ But they do this at the expense of VOC's RI logic. Allowing for incremental change by definition makes for 'un-fixed' preferences and unstable institutions. And we still can't explain preference formation or why any given institution was the object of layering or conversion, although we can describe it.

Added to this methodological problem is the substantive critique that VOC is too reductive in its limitation of capitalism to only two varieties and that it has great difficulty dealing with country cases that don't fit neatly into the binary division of capitalism.²² VOC theorists call the countries that don't fit or 'mixed market economies' (MMEs).²³ This third 'non-variety' of capitalism includes countries like France, Italy, Spain, South Korea, and Taiwan. Notably, these outliers are all countries in which the state plays and has in the past played a much more active role than in the ideal-typical LMEs or CMEs—whether it was termed state capitalism for France or the developmental state for South Korea and Taiwan or even Japan²⁴—and in which the state continues to intervene more, and differently, for better or for worse.

Scholars who focus on these other countries describe a more influential state and a more state-driven or hierarchical logic of interaction between firms, labor, and the state than in market-oriented LMEs and non-market managed CMEs.²⁵ Many of these scholars therefore see a third variety of capitalism, sometimes labeled ‘state-influenced’ market economies (SMEs) or ‘state-enhanced capitalism’ when ideal-typically focused on France;²⁶ ‘entrepreneurial states associated with France, Korea, and Taiwan;’²⁷ state-led capitalism associated with Japan;²⁸ and many more. What is important for us here is not whether these ‘outlier’ countries constitute another variety of capitalism or remain a ‘non-variety’ but, rather, the fact they all demonstrate a distinctive pattern of state action and interaction with business and labor different from those of LMEs and CMEs. The case for whether SMEs constitute a non-variety or another variety of capitalism need not be made here. All we need to show is how different state action can be from one constellation of capitalism to the next. To that end, we illustrate with the ideal-typical cases of Britain (LME), Germany (CME), and France (SME).

In an LME like Britain, the state is ‘liberal’ because it takes an arms’ length approach to business and labor, limiting its role to setting rules and settling conflicts, often leaving the administration of the rules to self-regulating bodies or to regulatory agencies, and generally acting as an agent of market preservation. Here, adjustment is driven by the financial markets and led by autonomous firms acting on their own, with comparatively little input—whether positive or negative—from the state or labor. In a CME like Germany, the state is ‘enabling’ because it takes action not just to arbitrate among economic actors but rather to facilitate their activities, often leaving the rules to be jointly administered by them, while acting as a co-equal (or bystander) with management and unions in labor regulation and wage bargaining, and generally acting to protect the production system’s non-market coordinating institutions. Adjustment here is led by firms and jointly negotiated cooperatively between business, labor, and the state.²⁹ In an SME like France, by contrast, the state is ‘influencing’ because it tends to intervene where it sees fit. State action may play an ‘enhancing’ or a ‘hindering’ role for business and labor activity depending upon whether public intervention has a positive or negative impact on economic actors’ interactions and productive capabilities. Although adjustment is firm-led in those domains where business now exercises autonomy—in business strategy, investment, production, and wage-bargaining—it is state-driven in those domains where neither business nor labor can exercise leadership—in labor rules, pension systems, and the like—or where the state sees a need to reshape the general economic environment to promote competitiveness.³⁰

Paying attention to the role of the state, then, enables us to see three different state-driven patterns and logics of political economic interaction rather than just one or two. But if we left things here, we would not be able to answer questions such as why certain countries within each of the three categories reformed more and differently than others in their same variety, or why countries within any one category have sometimes seemed to take up reforms more typical of another variety. Here, the ‘state’ remains too abstract and general an actor, with a stylized definition of how ‘it’ acts. Moreover, it only considers the state in terms of its political economic institutions, and not in terms of its policies, political institutions (polity), or politics.

STATE ACTION AS POLICY

Although the division of states into ‘liberal,’ ‘enabling,’ and ‘influencing’ tells us a lot about how the state tends to deal with the market, it tells us little about the state’s actual policies, whether their content, their implementation, or their effect. And all of this complicates the story told so far for all three varieties of capitalism.

The first bit of complication comes from the fact that state policies in recent years seem very similar in content, as the convergence theorists would argue, since all countries have liberalized their financial markets, deregulated their businesses, and increased the flexibility of their labor markets. In actual fact, however, although such policies may be similar, they are not the same. Divergence scholars have, for example, pointed out the many differences in the kind and degree of liberalization of the financial markets or in the deregulation of the banking sector, which are also generally in keeping with their variety of capitalism.³¹ State policies also show great differences in the timing and extent of reforms in labor market flexibility within and across varieties.³²

Another issue is that states may not act in the way one might expect, given their particular variety of capitalism. For example, the ‘enabling’ state of CMEs, despite its ideal-typical non-market preservation function, may act to deregulate the economy in ways that jeopardize non-market coordination. In Germany, for example, the Eichel tax reform of 2002, by eliminating capital gains tax on shares sold by banks and businesses, got rid of one of the elements holding the business-bank networked relationship together. The EU, moreover, has also had a great impact on Germany’s social market economy with its decisions on competition policy with regard to the regional banks³³ as well as on the Länder’s ability to block takeovers of public-traded corporations in which the state has a 20% golden share (as in the recent case with regard to Lower Saxony’s shares in Volkswagen).

In addition, the ‘liberal’ state of LMEs may appear much more interventionist than expected, by intervening forcefully to reshape the institutions that frame business and labor action. In the case of the UK, the ‘steering’ state which has emerged from the regulatory reforms of Thatcher, Major, and Blair engages in much more public intervention than in the past, either through direct government action or through regulatory agencies.³⁴ Moreover, the Blair government’s establishment of a single, strong financial market regulator went against the country’s historical pattern of a neo-liberal, hands-off state allowing for business self-regulation. An equivalent anomaly occurred in the German CME, where the federal government also instituted a strong central financial market regulator against the country’s historical pattern of regulation by regional governments, the Länder.³⁵ Similarly, moreover, the ‘influencing’ state of SMEs may step back from direct intervention in labor market relations to allow the social partners to coordinate their interactions in a manner similar to CMEs. This was the case of the 35 hour work week in France, in which the state under a Socialist government in the late 1990s and early 2000s set the general framework within which business and labor were to negotiate the particulars of the policy for their workplaces, then left them free to do so, which led to a massive shift in work rules, largely to the benefit of business.

Another way of thinking about the unexpected policy mix of states in different VOCs is to see that although all states have become more ‘neo-liberal,’ moving along a continuum from

'faire' (do) toward *laisser-faire* (let do)—that is, from interventionist state towards hands-off state by doing less on its own and leaving more room for market actors to act on their own—this has not meant a slide all the way to *laisser-faire*, by leaving everything up to market actors.³⁶ Rather, states have largely turned to *'faire faire'* (have do) by having market actors perform functions that the state generally did in the past, with clear rules as to what that should entail. This has in particular been the pattern of LMEs. In the US, for example, deregulation has generally meant not *laisser faire* but *faire faire*, since the federal government specified the guidelines which societal actors would need to follow, whether corporate actors in carrying out their programs or the courts in resolving disputes about those guidelines.³⁷ With regard to welfare reform, however, Clinton's negotiated package that decentralized welfare to the benefit of the states, went from a system of *faire* through entitlements programs to a *faire faire* that was actually *laisser-faire* to the benefit of the states, which gained block grants that enabled them to allocate the fixed sums as they saw fit.³⁸ SMEs and even CMEs have also reformed in this manner with regard to the deregulation of business and the privatization of pensions.

However, many states also engage in *'faire avec'* (do with) by doing a lot in collaboration with socio-economic actors—the pattern of cooperation most typical of CMEs, through corporatism. But *faire avec* has also occasionally been instituted in SMEs, as in France in the case of the 35 hour work week. However, even liberal states have on occasion turned to this kind of *faire avec*. For example, despite having most of the characteristics of an LME, Ireland has instituted a kind of state-led corporatism in labor policy, where the state brings the social partners to the table for wage agreements.³⁹ This has also been true for Mediterranean SMEs. Both Spain and Italy have developed a kind of 'state-led' corporatism in which the state stepped in to help ensure greater business-labor coordination in a kind of macro-concertation between employers, unions, and governments.⁴⁰ This is in great contrast to France, in which the state, by withdrawing from its organizing role in wage negotiations over the course of the 1980s, precipitated the radical decentralization of the labor markets.⁴¹

The best way to conceptualize the new policy mix is by visualizing state action in the three varieties of capitalism as consisting of overlapping circles clustered around two axes, with *faire* and *laisser-faire* on the y axis, to show the general trend toward greater neo-liberalism, but with *faire avec* and *faire faire* on the x axis, to show that while the state within the three varieties of capitalism continues to follow quite different internal logics, it nevertheless adopts policies that fit across all four quadrants (see Figure 1).

[Figure 1 about here]

State policies, in short, have become much more varied than what one might expect from the rather stylized description of state action in the varieties of capitalism. But importantly, policymaking does not take place in a vacuum—political institutions also matter.

STATE ACTION AS POLITY

Political institutional context also makes a difference for state action. Formal political institutions help explain how policy reform may differ among countries that cluster in the same as well as in different varieties of capitalism. One way to analyze the effects of institutional arrangements on state action in different varieties of capitalism is in terms of 'simple' polities

and ‘compound’ polities.⁴² In ‘simple polities’ where governing activity has traditionally been channeled through a single authority—the result of unitary institutional structures, statist policymaking processes, and majoritarian representation systems, as in the UK and France—the state is generally able to impose reform unless sanctioned through elections or protest in the streets (mainly France). In ‘compound’ polities, where governing activity is instead more dispersed through multiple authorities—the result of federal or regionalized institutional structures, corporatist policymaking processes, and/or proportional representation systems, as in Germany, Belgium, Italy, Spain, and the US—the state cannot impose and therefore must negotiate widely or risk not gaining agreement on reform (esp. Germany and the US) and even provoking protest in the streets (esp. Italy). In between are a number of countries which are only somewhat compound because they have unitary states but corporatist policymaking processes and proportional representation systems, as in Sweden, Denmark, and the Netherlands (see Figure 2).

[see Figure 2]

Differences in institutional arrangements using a rather straightforward HI methodological approach help us understand why states with very similar policies within the same variety of capitalism may have very different success rates with regard to policy reform. Thus, for example, in the comparison of policy outcomes in LMEs like the UK and the US, we can explain why the UK under Thatcher was much more successful in imposing radical neo-liberal reforms than the US under Reagan by reference to institutional arrangements.⁴³ In the UK’s ‘simple’ polity, Thatcher benefited from the power concentrated in the executive by the ‘Westminster system’ and from the majoritarian representation system that ensured that the opposition would be unelectable once it split. The conservative government was therefore able to engage in massive liberalization of the economy, privatization of nationalized enterprises, and deregulation of business, although it failed in welfare state reform, which only came with the advent of the ‘New Labor’ government of Tony Blair beginning in 1997. By contrast, in the US’ compound polity, Reagan, although also benefiting from a majoritarian system, had to contend with federal institutional structures in which the Congress had greater say than the President over reform efforts and the states could counter such efforts by their own programs; with a pluralist system in which business interests groups and lobbies had tremendous power to block reform and labor little power to promote it; and with a political system that has ensured that there would rarely be any agreement on reform, given two weak political parties that were fragmented internally on the left-right dimension as well as regionally by geographical interests that cut across partisan divides.⁴⁴

We can make a similar set of arguments about the importance of institutional arrangements for the differential success of reform efforts in CMEs. In CMEs generally, enabling states’ reform strategies entailed liberalizing, deregulating, and privatizing in consultation and coordination with business and labor rather than by state *fiat* (as in the UK’s simple LME), which also explains its continued use of *faire avec* (state does with market actors) in policies, in order to negotiate agreement. Moreover, reform success is largely guaranteed where the social partners agree to reform. However, where they disagree, reform is likely to be much more difficult in fully compound polities than in somewhat less compound ones. Germany’s federal system, in which the Länder have significant blocking power, and its

corporatist processes, in which the social partners have autonomy on most labor market policies, ensures that disagreement on policies leads to the ‘joint-decision trap’ and ‘blocked reform.’⁴⁵ By contrast, in the Netherlands and Sweden, the unitary nature of the state enables both countries to act like more simple polities and impose change when corporatist processes break down and/or when they cannot arrive at consensus, as in the case of the reform of welfare policies in the 1990s in both countries.⁴⁶ But even where corporatist processes persist, as in Denmark, policy reform success can in large part be attributed to the unitary state’s active role in promoting policy change through national level coordination mechanisms, using firms in order to achieve its goals of bringing the long-term unemployed into the economy. In comparison, the federal German state was unable to mobilize the social partners for solidaristic purposes, and instead German firms worked through the state to achieve their goals of shedding unproductive labor.⁴⁷ This said, even Germany was able to reform its welfare state beginning in the early 2000s.

SMEs differ from one another as well. And here, the interesting difference is that although simple polities like France are generally assumed to have greater capacity to reform, given government ability to impose it, than in compound polities like Italy or Spain, where reform needs to be negotiated, French governments have had less success instituting major welfare state reforms than Italian and Spanish governments. In France, while the centralization of political power, together with the fragmentation of economic actors, enabled governments between the mid 1980s and the mid 2000s to impose privatization, liberalization and deregulation of business as well as to radically decentralize wage-bargaining, as noted above, it did little to facilitate pension reform. Right-wing governments failed time and again to impose public pension rationalization in the face of massive protests while Socialist governments didn’t even try.⁴⁸ This said, incremental reforms did proceed through negotiation with the social partners.⁴⁹ By contrast, despite the compound nature of the Italian and Spanish SMEs—riven by territorial cleavages, public-private cleavages related to the history of nationalized enterprises, cleavages across industrial sectors and between bigger and smaller firms, not to mention the greater organization and political strength of labor than in France—both countries were able to negotiate significant labor market and pension reforms successfully, although Italy had greater problems doing so than Spain.⁵⁰

The HI approach, which emphasizes the political institutional context, in short, goes a long way toward helping to explain differential neo-liberal reform success in countries in the same varieties of capitalism. But it does not take us far enough. We still don’t know why specific policies succeeded, in particular ones which went against the traditional political economic patterns of state action, reversing long-standing policies and overcoming political institutional obstacles to change. This is because we need one more variable: politics.

STATE ACTION AS POLITICS

Politics helps us get at the underlying causes for changes in political economic patterns, policies and polities. What we mean by politics, however, is itself at issue. Some see politics as to be explained solely in terms of the interrelationships of power and interest among strategic actors. This is what it is for most members of the VOC school, given the use of the RI logic of strategic action attached to HI macro-historical institutions. But politics can also be explained in terms of the ideas and discursive interactions of sentient actors, as part of the latest ‘new institutionalist’ approach, discursive institutionalism (DI).

Before considering this third new institutionalism and the insights it can provide, it is useful to return briefly to VOC, to recent developments that have brought politics back in. Peter Gourevitch and James Shinn in particular have added an important corrective to VOC by focusing primarily on the politics of corporate governance.⁵¹ By politics, they mean the interest-based coalitions that produce different systems of corporate governance in different varieties of capitalism. But here, again, the state is largely absent, since in Gourevitch and Shinn's causal model, the main players are economic interest groups made up of owners, managers, and workers, while state action is limited to the political institutions which represent the "machinery that refracts the preferences and that aggregate them into outcomes."⁵² Moreover, we lose any sense of policy outcomes as in any way the product of state actors *qua* state actors, meaning the elected or un-elected public officials who may have preferences separate from the main economic players, for example, because they are focused on the public, whether conceived of as consumers of the firm's products, as small shareholders whose pensions are tied up in those firms, and/or as voters who will let their views be known through the ballot box if they feel threatened as consumers or small shareholders. Equally importantly, public officials may act alone, even without the existence of a political constituency of shareholders, in *anticipation* of a possible future reaction from voters who will become shareholders. This helps explain why in both the German CME and the British LME, politicians' concerns about voter response to the privatization of household risk created an incentive to challenge the regulatory status quo, leading to the move to create a strong, single financial regulator against the strong preferences of central banks.⁵³ The state, in short, not only frames the action of the other players, when it stands for political economic and political institutional context, it can also reframe the action when it stands for 'politics,' through the policies promoted by political actors with *ideas* about the public's interests different from economic actors' ideas about their own narrow self-interests.

Thus, taking ideas seriously, along with the legitimating discourse in which such ideas are embedded and through which such ideas are conveyed, can also lend insight into politics. But how does one approach questions of ideas and discourse? 'Discursive institutionalism' (DI), which takes account of the substantive content of ideas and the interactive processes by which ideas are conveyed and exchanged through discourse, offers some answers.

With regard to the substantive content of ideas, DI calls attention to the ways in which political actors' ideas serve to (re)conceptualize interests and values as well as (re)shape institutions. Such ideas can be specific policy ideas, such as the varying state responses to neo-Keynesianism among LMEs, CMEs, and SMEs in the postwar years.⁵⁴ They may be more general programmatic ideas, such as states' radical shift in 'paradigms' from neo-Keynesianism to neo-liberalism in the British LME or the French SME.⁵⁵ But they may instead be underlying public philosophies. These could be foundational political ideas about the role of the state in the French SME as opposed to the US LME, which ensured that the development of the railway system in the former was state led, in the latter led by private actors;⁵⁶ foundational economic ideas at moments of 'great transformation' that resulted in states 'embedding' liberalism in the 1930s and then 'disembedding' it beginning in the 1970s in the Swedish CME and the US LME;⁵⁷ or 'collective memories' that are generated at critical moments, as in the state-framed agreements in the 1930s establishing the collaborative institutions of wage-bargaining in Sweden which have persisted with only incremental changes up until today.⁵⁸

With regard to the discursive processes by which ideas are conveyed, DI encompasses a ‘coordinative’ discourse consisting of the individuals and groups at the center of policy construction who are involved in the creation, elaboration, and justification of policy and programmatic ideas; and a ‘communicative discourse’ which consists of the individuals and groups at the center of political communication involved in the public presentation, deliberation, and legitimization of policy, programmatic, as well as philosophical ideas.⁵⁹ The coordinative discourse may involve loosely connected individuals united in the ‘epistemic communities’⁶⁰ of financial and banking elites who articulated the ideas for European Monetary Union⁶¹ or of specialized politicians and policy experts who pushed reform of the welfare state in Sweden once the social partners bowed out.⁶² It may instead contain more closely connected individuals in the “advocacy coalitions” of water policy activists in California⁶³ or in the “discourse coalitions” of the ‘ordo-liberals’ whose ideas underpinned the German CME’s postwar philosophy of the social market economy.⁶⁴ Or it may be led by ‘entrepreneurs’ who helped bring about the Single Market in the European Union⁶⁵ and ‘mediators’ who created the frame of reference for different state policies in the French SME.⁶⁶ By contrast, the ‘communicative’ discourse consists of political actors engaged in a mass process of public persuasion, in which political leaders, government spokespeople, party activists, “spin doctors,” and more, communicate the ideas developed in the coordinative discourse to the public for discussion, deliberation, and modification of the ideas in question, as they engage with members of opposition parties, the media, pundits, community leaders, social activists, public intellectuals, experts, think-tanks, organized interests, social movements, as well as, naturally, the electorate.⁶⁷

It should be clear by now from the wide range of examples offered that one of the reasons for turning to discursive institutionalism is to use ideas and discourse to help explain the dynamics of change (as well as continuity) in political economy. What distinguishes DI from HI, to begin with, is that instead of treating critical junctures as unexplainable times when the HI rules and regularities shift, DI makes these moments its objects of explanation by closely examining sentient agents’ changing ideas about their actions in response to material events.⁶⁸ Moreover, instead of mainly describing the incremental processes of change in the rules, as in HI, DI explains those processes of change through the ideas and discourse of the agents who reproduce those rules—and change them—in everyday practice. In other words, the HI processes of ‘bricolage,’ conversion, and reinterpretation in, say, industrial relations, can be explained as the product of sentient agents engaged in thinking up new ideas about what to do and how to do it and then engaging in discussions in efforts to persuade others that this is indeed what one needs to and ought to do. This is not to say, of course, that critical junctures and incremental processes can always be explained through DI. Cataclysmic events, ‘exhaustion,’ and the unintended consequences of intended actions also make for changes for which DI also cannot account. But even where DI cannot account for these, it does cover sentient agents’ ideas and discourse about those events and their reasons for their subsequent courses of action in response.⁶⁹

DI explanations of the actions of ‘sentient’ agents are also very different from the RI explanations of the actions of ‘rational’ actors to which historical institutionalist political economists often turn when trying to explain *why* institutions change.⁷⁰ The rational actors of RI are generally strategic agents whose ideas rarely stray beyond the expected calculations of

interests according to pre-existing preferences, whose talk is ‘cheap,’ and whose interests are deductively extrapolated from their actions, which ‘speak more loudly than words.’ By contrast, in DI, sentient agents are thinking actors who generally articulate their ideas about what they do; whose ideas, discourse, and actions ordinarily make sense (and can be made sense of) within a given meaning context according to a contextualized logic of communication.⁷¹ Although DI agents naturally also act on the basis of interests, these are ideas about interests which can encompass much more than strictly utilitarian concerns, as in the five different sorts of strategic ideas the EU Commission used to push the integration of Europe in the Single Market,⁷² and also bring in values, such as those of the world of think-tanks, whether the unabashedly political and value-laden research of conservative think-tanks in Washington or the (self-proclaimed) more value-neutral and objective research of progressive think-tanks which have therefore been less successful in projecting their ideas.⁷³

In DI, moreover, power is not related exclusively to interest (as in RI) or position (as in HI). DI ideas and discourse are much more than simple reflections of interests or position. This is because actors can gain power from their ideas as they give power to those ideas. Discursive power comes from the ability of agents with good ideas to use discourse effectively, whether to build a ‘discursive coalition’ for reform against entrenched interests in the coordinative policy sphere or to inform and orient the public in the communicative political sphere. Conveying ‘good’ policy ideas through a persuasive discourse helps political actors win elections and gives policy actors a mandate to implement their ideas.

Finally, political institutional context also matters. This is where our earlier HI discussion of the state as polity can prove helpful. Although all countries have and need a mix of both coordinative and communicative discourses, in ‘simple’ polities such as the British LME or the French SME, the communicative discourse to the general public tends to be most elaborate, largely to make up for the restricted elite constructing policy in the coordinative discourse. By contrast, in ‘compound’ polities like the German CME, the Italian SME, and the somewhat less compound Dutch and Swedish CMEs, the coordinative discourse among the multiple policy actors is more elaborate, the communicative thinner because political leaders do not want to jeopardize the compromises among policy actors in their pronouncements to the public. Exceptions to this rule are the compound US LME, since its majoritarian politics makes for a strong communicative discourse, its pluralist system for a strong coordinative—although these often work at cross-purposes; and the EU, which has the strongest of coordinative discourses, given the multiplicity of actors involved in decision-making and the weakest of communicative discourses, since it depends largely on national actors to speak for it.⁷⁴

WHY IDEAS AND DISCOURSE MATTER

To explain neo-liberal reform in national political economies, state action in terms of political economic institutions, policies, and political institutions certainly helps with the context, direction, and patterns of change, but it does not tell us enough about why certain kinds of reforms rather than others were adopted, why one country went farther than another, or why one government was able to go farther than its predecessor, notwithstanding similar political economic and political institutions or even economic actors’ same sets of interest-based motivations. For this, we do well to turn to DI explanation. To make the case, we now go into

greater detail on changes in the three countries which represent ideal-types of the three varieties of capitalism: the British LME, the German CME, and the French SME.

In the UK LME, to begin with, a HI explanation in terms of ‘simple’ institutional design is not enough to explain the success of the Thatcher government’s radical neo-liberal policy initiatives. Although the country’s unitary structure, combined with a split in the opposition, is necessary to understanding why Thatcher was able to impose reforms which broke with past political economic practices, it is not sufficient to explaining why reforms which, in RI terms, went against the expressed interests of labor as well as much of business not only took hold but lasted, making the opposition Labor Party electable only once it had embraced neo-liberalism. Moreover, given her institutional power, we also cannot explain why Thatcher could not extend her neo-liberal revolution to the welfare arena.

For all of these issues, a DI explanation can prove illuminating. The Conservative government’s reform success owes much to Thatcher’s neo-liberal ideas developed in the pre-1979 coordinative discourse among a small group in the Tory party, the financial elite, and the financial press.⁷⁵ But it is her subsequent, highly effective communicative discourse to the general public about the necessity (TINA—there is no alternative) and appropriateness of reform in terms of the country’s long history of liberal values which ensured that reform would take hold.⁷⁶ Although centralized institutions certainly helped Conservative leaders to impose neo-liberal economic reforms, they also needed—and were able—to convert the electorate to policy ideas that radically altered the economy through reduced public spending and privatization of major industries and of council housing.⁷⁷ Significantly, however, although public opinion polls show that by the mid to late 1980s, Thatcher’s communicative discourse about the ‘enterprise culture,’ the value of hard work, and ‘the right to be unequal’ enabled her to convince the public to accept neo-liberalism and the value of merit over equality, they also indicate that Thatcher’s communicative discourse contrasting the “worthy poor” with “the feckless and the idle” did not resonate with a public that remained concerned about the poor and valued the universal benefits of the national health service.⁷⁸ She was unable to convert the country to neo-liberal welfare reform, although she was able to make cuts in areas other than universal services, like aid to single mothers, and to introduce more competition into universal services like education as well as health.⁷⁹ All of this helps explain Thatcher’s strategic calculation (explainable in RI terms) to pull back from radical reforms, given concerns about electoral sanctions from the public (and in particular her own electorate).⁸⁰ It took Labor Prime Minister Blair to complete Thatcher’s revolution in the welfare arena, with a communicative discourse that did resonate as it appealed to values of equality and compassion as much as to neo-liberalism, by promising to “promote opportunity instead of dependence” through positive actions (i.e., workfare) rather than negative actions focused on limiting benefits and services, and by providing ‘not a hammock but a trampoline,’ not ‘a hand out but a hand up.’⁸¹

In the German CME, a HI/RI explanation in terms of ‘compound’ institutional design and entrenched stakeholders can help explain why neo-liberal reform was delayed, but it has difficulty explaining why reform succeeded not only in overcoming the HI path-dependence of labor market and welfare institutions but also the RI interest-based opposition between labor and management. A DI explanation can add to an understanding of the continuity at the same time that it can account for the changes..

In the compound German CME, reform efforts were stymied from the mid 1990s on by a stalemated coordinative discourse characterized by diverging ideas pitting management, increasingly in favor of neo-liberal reforms to promote labor market flexibility and rationalize pensions, against the unions, which resisted such reforms, blaming European Monetary Union and macroeconomic policy for the lack of economic growth. In the early 2000s, this stalemate was overcome. The ground for this was prepared by a coordinative discourse in which neo-liberal ideas were brought in from the outside, by business leaders in the main employers' association, the BDI. This then became part of a more generalized communicative discourse as government leaders began espousing more liberalizing ideas which were then picked up in the media and, at a time of continuing high unemployment, served as a spur to Chancellor Schröder's decision to go ahead with the Hartz reforms of pensions and labor markets.⁸² The resulting reforms were extensive. But their successful negotiation cannot be attributed to Schröder himself, who failed to articulate a sufficiently legitimating communicative discourse about the reforms. The absence of a cohesive set of ideas or 'frame' helps explain the tenuousness of the reform, and its subsequent partial reversal.⁸³ But Schröder's persistence in the face of plummeting popularity ratings and public discontent, which goes against all RI calculations of his (or his party's) interests, nevertheless allowed time for the coordinative discourse among social partners and government to produce significant results.

This success has been attributed to the 'ideational leadership' of particular ministers in Schröder's government, who 'framed' the terms of the coordinative discourse with the social partners.⁸⁴ But if we stop here, we may make it appear as if success were due to a top-down discursive process in which the deal is done once the 'right' ideas are developed and conveyed by political leaders. The process is clearly more complicated than this, since much depends not only on the framing of the ideas but also on the responses of those to whom they are directed. A HI/RI critique of the DI 'framing' explanation suggests that success depends upon the structure of the winning coalition of political parties and corporate actors representing groups with very different interests, with reform coalitions generally ones that have a package of reforms that balance positive and negative effects, thereby producing a compromise appeal to interests.⁸⁵ But this account in its turn leaves out the further DI explanation of how those corporate actors came to reconceptualize their interests in such a way as to agree to these particular reforms, and how they then legitimated them to their own constituencies.

In the French SME, finally, our question is why did France, with its 'simple' institutional configuration that enabled it to impose reform far more readily than compound SMEs like Italy or Spain, have such great difficulty reforming the welfare state. And why was the newly elected President Sarkozy able to break the impasse on the 'special regimes'? An HI/RI account of the changing structure of interests helps explain part of the story. Although the macro-institutional setting gives the state tremendous power to impose, the public also has great ability to resist, taking to the streets whenever it disapproves of government policies. But this is why the government's communicative discourse to the public can make a great difference—as can a coordinative discourse with the social partners. For the 1993 reform of private pensions (lengthening contribution time and lowering benefits), the Balladur government was able to reform because of the inability of private sector workers to organize effective protests, given the low rate of unionization. But it was also because the government engaged in a coordinative

discourse with the social partners, and proposed reforms that balanced positive and negative benefits.⁸⁶ By contrast, the 1995 attempt by Prime Minister Alain Juppé to impose reform of public pensions and of the ‘special regime’ of the railroad workers was met by major protest, as the highly unionized public sector, supported by the sympathetic public, paralyzed France for over three weeks. Here, the problem was not only entrenched interests but also that Juppé engaged in almost no discourse at all, whether communication to the public or coordination with the social partners. It was to be another eight years before governments broached public sector pension reform—which finally worked when the Raffarin government in 2003 engaged in an extensive coordinative discourse balancing positive and negative benefits.⁸⁷ It was to be twelve years before the special regimes were reformed. President Sarkozy’s success with the 2007 reform initiative on the special pension regimes can be explained in large part by his ability to reframe the issue in a communicative discourse that resonated with the concept of equality central to the French republican tradition, arguing that equality of treatment demanded that railroad workers retire like everyone else after 40 years of employment (rather than at age fifty for railroad conductors). The power of the discourse was such that union leaders themselves acknowledged that the most they could do was engage in rearguard action with a communicative discourse focused on those whose ‘difficult work’ entitled them to earlier retirement, and accept coordinative negotiations in which they hoped to recoup their losses through side-payments in exchange for labor peace.

CONCLUSION

Bringing the state back in to political economy, in sum, has a variety of benefits. It enables us to recognize the significance of state action in terms of political economy, policy, polity, and politics and aids in the identification of a third, distinctive (non) variety of capitalism. But it also takes us further, seeing the importance of using not only HI and RI approaches to analyze strategic action and institutional development but also DI approaches, in particular to point to the role of ideas and discourse in lending insight into the political dynamics of institutional change.

At a time when states across advanced industrialized countries have been intervening massively, even to the point of nationalizing financial institutions, our bringing the state back in to the analysis of political economy comes not a moment too soon. But the new interventionism of states everywhere also raises a question about whether the differences among varieties of capitalism argued herein is still relevant, given that all states have intervened in similarly aggressive ways to stabilize the financial markets (through *faire*). A closer look at the kinds of actions taken, together with the accompanying ideas and discourse, make it clear that differentiation remains. The starkest contrast is between the US LME—which hesitated to take action, allowed Lehman Brothers to fail, experienced a House Republican revolt against ‘financial socialism,’ and backed into taking equity stakes only once the UK had shown the way—and the French SME—which was eager to engineer multilateral global intervention, managed to gain agreement on eurozone coordination, had financial institutions less directly involved in the crisis because more regulated, and has citizens’ pensions less exposed because unlike in LMEs they are still largely PAYGO rather than marketized

There is one last puzzle. Why have political economists persisted in seeing only one or at most two varieties of capitalism and in denying a role to the state, given what we have just

demonstrated in terms of the existence of a third variety of capitalism and the significance of state action? Here, a discursive institutionalist analysis focused on the normative role of ideas and discourse may help.

RI approaches to political economy can easily make convergence to a neo-liberal model look inevitable by focusing on the pressures of economic forces and the logics of political incentives that (necessarily) lead all rational economic actors to respond (rationally) in one way alone—for better or for worse. For those in favor of a neo-liberal model, but also for those opposed, this provides a set of ideas for a normative discursive strategy focused on getting people to accept, or revolt against, the model.

HI approaches to political economy do not make things look inevitable—they make them appear inexorable, with divergence into liberal market economies or coordinated market economies the result of countries subject to very different historical rules and regularities for a very long time. Inserting a RI logic of interaction into this HI framework only adds the inevitable to the inexorable. For those who seek to counter the theory of convergence to a single neo-liberal model, this approach provides another a set of ideas which are part of a normative discursive strategy focused on getting people to believe that there are two ways, not one, of being capitalist.

So what does bringing the state back in do? First of all, in pointing to the continued existence of a third, state-influenced variety (or ‘non-variety’) of capitalism using the same RI/HI mix of methodologies, it shows that there is nothing inevitable about the neo-liberal model nor anything inexorable about the split into two varieties. And secondly, by pointing to at least three varieties, it saves France, Italy, and Spain—not to mention the Asian tigers and the bulk of developing capitalist democracies—from the dustbin of history, because it demonstrates that countries that fit this third category also have their own separate political economic patterns of institutional action.

What do DI approaches to political economy do? They make one, two, and three varieties of capitalism look neither inevitable nor inexorable because they leave the future open to new ideas conveyed by discourse. They also show that all three varieties of capitalism persist not just because of path dependent structures and market or managed coordination but because of differing ideas and discourse about state action and business and labor interaction. Most importantly, however, DI puts real politics, the politics of leadership and opposition, back into the mix, and shows how policies within particular polities and political economies are the result of politics which reduce RI inevitability and HI inexorability. They thereby demonstrate that the shape of all market economies depends upon public choices resulting not just from the power clash among interests but from the battle of ideas through discourse and deliberation. Putting across this particular set of ideas—that we need to put the political back into political economy by bringing the state back in yet again—constitutes the normative discursive strategy of this paper.

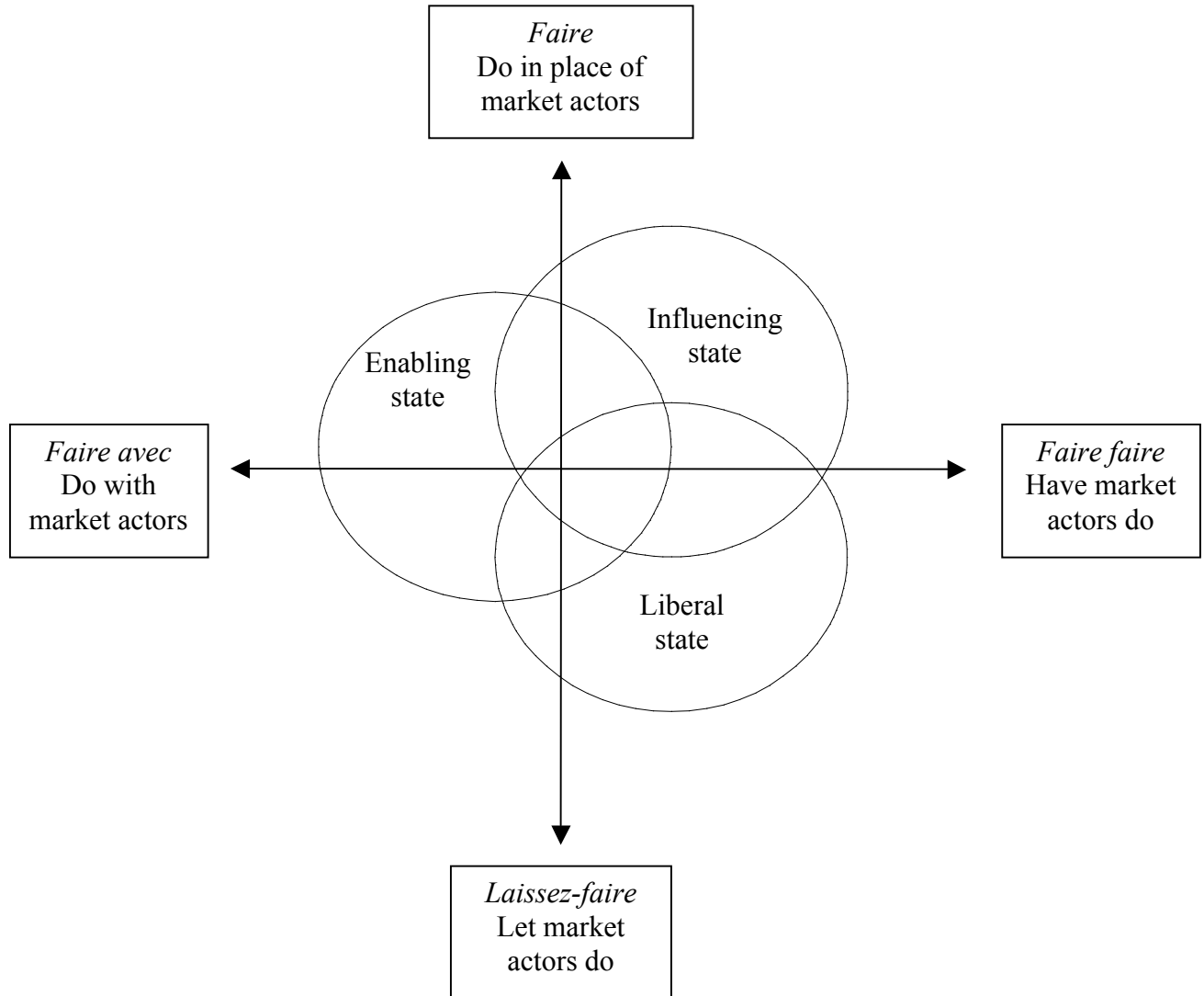


Figure 1: State actions of the three varieties of capitalism on a four fold scale from *faire* (do in place of market actors) to *faire avec* (do with market actors) to *faire faire* (have market actors do) to *laissez faire* (let market actors do)

		Liberal Market Economies	Coordinated Market Economies	State-Influenced Market Economies
Simple Polities	↕	UK		FR
Compound Polities		US	DK/SW/NL Ger	Sp

Figure 2: Varieties of Capitalist Market Economies as Simple and Compound Polities

Footnotes

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⁶⁶ Bruno Jobert, The Normative Frameworks of Public Policy. *Political Studies* 37 (1989): 376-86; Pierre Muller, « Les Politiques Publiques comme Construction d’un Rapport au Monde » In Alain Faure, Gielles Pollet, and Philippe Warin (eds), *La Construction du Sens dans les Politiques Publiques: Débats autour de la notion de Référentiel*. Paris: L’Harmattan, 1995

⁶⁷ See for example Diana C.Mutz, Paul M. Sniderman, and Richard A. Brody, *Political Persuasion and Attitude Change*. Ann Arbor: University of Michigan Press, 1996; John R.

Zaller, *The Nature and Origins of Mass Opinion*. Cambridge: Cambridge University Press, 1992.

⁶⁸ Blyth 2002; Schmidt 2002, 2008a

⁶⁹ See Schmidt 2008a.

⁷⁰ For example, the approach of Streeck and Thelen 2005, p. 19.

⁷¹ This suggests not only that the ideas in the discourse must ‘make sense’ within a particular ideational setting but also that the discourse itself will be patterned in certain ways, following rules and expressing ideas that are socially constructed and historically transmitted (Schmidt 2008).

⁷² Nicolas Jabko, *Playing the Market* Ithaca: Cornell Univ. Press, 2006, Ch. 3

⁷³ Andrew Rich, *Think Tanks, Public Policy, and the Politics of Expertise*. New York: Cambridge University Press 2004

⁷⁴ Schmidt 2006.

⁷⁵ Hall 1993

⁷⁶ Schmidt 2002, Ch. 6.

⁷⁷ Monica Prasad, *The Politics of Free Markets: The Rise of Neoliberal Economic Policies in Britain, France, Germany, and the United States*. Chicago: University of Chicago Press, 2006

⁷⁸ Peter Taylor-Gooby, ‘Attachment to the Welfare State’, in R. Jowell (ed.), *British Social Attitudes: The 8th Report*. Aldershot, UK: Dartmouth, 1991.

⁷⁹ Martin Rhodes, “Restructuring the British Welfare State: Between Domestic Constraints and Global Imperatives” in *Welfare and Work. Vol. II* eds., F. W. Scharpf and V. A. Schmidt. Oxford: Oxford University Press. 2000.

⁸⁰ Paul Pierson, *Dismantling the Welfare State: Reagan, Thatcher and the Politics of Retrenchment in Britain and the United States* Cambridge: Cambridge University Press, 1994; Rhodes 2000.

⁸¹ Vivien A. Schmidt, “Values and Discourse in the Politics of Adjustment” in *Welfare and Work in the Open Economy: Vol. 1* eds., Fritz W. Scharpf and Vivien A. Schmidt. Oxford: Oxford University Press, 2000; Schmidt 2002.

⁸² Daniel Kinderman, “Pressure from without, Subversion from within: The Two-Pronged German Employer Offensive,” *Comparative European Politics* vol. 3 (2005), pp. 432-63; Schmidt 2002.

⁸³ Aaron Bosenecker, “The Power of Defining Work and Welfare: Politics and Discourse in European Welfare Reform.” Paper prepared for presentation to the 16th International Conference of the Council for European Studies Chicago, IL (March 6-8, 2008).

⁸⁴ Sabina Stiller, *Innovative Agents versus Immovable Objects: The Role of Ideational Leadership in German Welfare State Reforms* PhD dissertation, Radboud University, Nijmegen (October 2007).

⁸⁵ Silja Häusermann, “What explains the ‘unfreezing’ of continental European welfare states? The socio-structural basis of the new politics of pension reforms.” Paper prepared for presentation to the American Political Sciences Association Annual Meetings, Boston MA (Aug. 28-31, 2008)

⁸⁶ Palier 2006; Häusermann 2008.

⁸⁷ Ibid.