Introduction

Recasting Welfare Capitalism in an Age of Austerity

This book examines how national models of welfare capitalism evolve when they move from prosperous times to periods of economic austerity. The end of the postwar boom has presented policymakers in Western Europe and the United States with unprecedented challenges, including rising rates of unemployment, sluggish economic growth, declining rates of productivity, and growing fiscal and demographic pressures on the welfare state. Faced with the unenviable task of presiding over a period of economic austerity while struggling to hold on to power and preserve social peace, public officials across the advanced industrial world have cast about for ways to preserve central components of their postwar arrangements while adjusting them to growing competitive pressures, all with fewer political and economic resources at their disposal. This process of readjustment—similar in some respects to what Paul Pierson has called "recalibration"—has entailed significant reform of a wide array of policies and institutions, from labor markets, to systems of taxation, to policies of social protection.[1] No advanced industrial country has been exempt from this process of reform or from the political and social challenges arising from it.

This book investigates the dynamics of adjustment of national models of welfare capitalism through an analysis of French and German social- and economic-policy reform since the 1970s. It seeks to explain two basic facets of how advanced industrial societies transform when they shift from a climate of prosperity to one of austerity. First, it shows that the process of adjustment involves interrelated and mutually constitutive changes in social and economic policies. Prevailing approaches in the welfare-state and comparative-political-economy literatures tend to focus on particular policy areas at the expense of others that are equally instrumental for the process of economic adjustment. As a result, they leave us few tools for developing a systematic understanding of how political economies as broad institutional entities adjust to long-term changes in economic context.[2] This book, by contrast, analyzes how liberalization and adjustment to austerity transform systems of *welfare capitalism,* including both the welfare state and the broader political economy.

Equally important, it shows that the advent of economic austerity redefines the political processes through which reform takes place. As climates of prosperity give way to slowing growth and rising unemployment, the policy incentives facing and political resources available to key actors change. Over time, the political relationships that govern adjustment are renegotiated, often in unpredictable ways. This shift in political opportunities and incentives is driven in part by the discrediting of older models in the wake of their failure to manage the process of adjustment. As this erosion of credibility undermines the legitimacy and effective authority of actors that had been dominant under the older models, it creates pressures for new kinds of bargains that allow greater influence by actors that had previously been weak or marginalized. In the process, new coalitions emerge to drive the process of reform, often in ways that are quite different from what either the formal distributions of political authority in national political economies or past practice would lead us to expect.

By highlighting such shifts in both the substance of policy and the style of politics under austerity, this book offers a significant set of revisions to the postwar literature on "national models" of capitalism. The seminal work in this tradition was Andrew Shonfield's *Modern Capitalism,* which described how Britain, France, Germany, Italy, and the United States devised novel political-economic institutions that replaced the penury and destruction of the war with prosperity and economic renewal.[3] Shonfield and, later, scholars such as Peter Hall and John Zysman identified distinct national institutional configurations, which yielded enduring national patterns of political interaction and policy trajectories in advanced industrial countries.[4] In France, for example, a highly centralized and powerful state gave rise to an insular process of economic planning, the exclusion of weak and fragmented trade unions, and the neglect of shopkeepers and small business. French economic policy was governed by a "conspiracy in the public interest" between the state and powerful business groups that acted as the engine of rapid industrialization.[5] In Germany, by contrast, regular negotiations between a "semi-sovereign" state and powerful producer groups supported a consensual, gradual policymaking process in which the state was a first among equals.[6] In both countries, the character of politics was thus seen to flow predictably from formal constellations of political authority, even if the "new institutionalism" of the 1970s and 1980s placed increasing emphasis on informal relationships and political contingency.[7]

Though the work of Shonfield and his heirs provided critical insights into the varied character of national models of capitalism during the postwar boom, it has proved less well suited to understanding the climate of economic austerity since the mid-1970s. When growth rates were high and unemployment was low, the exercise of public authority was generally seen to be consistent with the public good. As the advanced industrial world stagnated in the 1970s, however, the very institutional configurations that had been credited with postwar success were blamed for failure. As a result, and as the near-revolution of May 1968 in France showed, marginalized political actors with little recourse to official levers of power could exert significant influence, though often in unconventional ways. Over time, such shifts in authority redefine prevailing relationships between governments and interest groups and transform national political dynamics as a result.

Models in Motion: Rethinking the Politics of Economic Austerity

To be sure, the concern with how countries adjust to austerity is hardly new. Since at least the time of John Maynard Keynes, and more recently in books such as Peter Gourevitch's *Politics in Hard Times,*[8] scholars of comparative political economy have examined how policy challenges shift with economic circumstances. Though inspired by work such as Gourevitch's, this book adopts a different perspective on the political effects of economic austerity. The central focus of work like Gourevitch's is how given economic interests, represented in constellations of social and economic actors, respond to discrete economic shocks. Though such structural perspectives show well how such shocks reshape policy regimes, they are less useful for identifying the evolving relationships among key political actors *within* a given policy regime or for showing how these changes redefine policy trajectories. By adopting an approach that is less structural and more political, this book captures many of the diachronic, cumulative changes in political dynamics that such earlier work fails to identify.[9]

Other recent work in comparative politics and political economy likewise requires modification if it is to illuminate interconnected shifts in policy and politics. Paul Pierson's work and the rich literature on welfare reform that he has inspired have shed light on one aspect of that process: how and to what extent welfare states change in the wake of mounting fiscal and economic pressures. Such work is emblematic of much of the work in comparative politics in that it provides an excellent analysis of change in particular policy domains but neglects how such changes relate to reforms in other areas of the political economy. In part, this fact derives from the stubborn separation of welfare-state scholarship from work in comparative political economy. Even work such as Gøsta Esping-Andersen's seminal *Three Worlds of Welfare Capitalism,*[10] which purports to situate social policy within a broader policy and institutional context, focuses largely on welfare states and industrial relations while ignoring other dimensions of economic policy. There have so far been few systematic analyses of the broad character of contemporary change in national models of capitalism across policy areas and of how that complex process of reform relates to qualitative, systemic changes in the politics of economic adjustment.

Such limitations are reflected in much of the recent literature on comparative politics and comparative political economy. Since the 1980s, scholars have generated two broad answers to the question of how national models of capitalism have adjusted to the climate of economic austerity, each of which is problematic in several important respects. The first position is that globalization, variously defined, is eroding nationally distinctive political-economic features as countries converge on a liberal, Anglo-American economic model with a limited welfare state and a constrained role for public authorities.[11] Though perhaps less dominant now than a decade ago, such images of rampant globalization driving convergence on a model of market-based adjustment remain influential. One has only to look at the Anglo-American press or the work of prominent neoclassical economists to encounter the argument that economic pressures from the global economy are undermining non-market arrangements such as collective-bargaining rights and generous welfare states.[12] Though contemporary capitalist economies have clearly changed a great deal since the 1970s and 1980s, this book shows that such change has not involved convergence on a neoliberal model. Instead, it has entailed historically rooted and nationally distinctive patterns of adjustment whose dynamics have been continually renegotiated.

The second prevailing set of arguments, which is both more credible empirically and more influential among many social scientists, contends that little has changed. Though advanced industrial countries have been confronted with a series of daunting economic challenges, many scholars have argued that national models of capitalism have displayed remarkable levels of policy and institutional stability. Since Shonfield revolutionized our understanding of how capitalist economies vary, a rich tradition of scholarship has provided compelling reasons why such diversity is likely to endure. The most recent and best-known formulation of this framework is the Varieties of Capitalism approach inaugurated by Peter Hall and David Soskice. Hall and Soskice define their project as creating "a new framework for understanding the institutional similarities and differences among the developed economies" and as "a firm-centered political economy that regards companies as the crucial actors in a capitalist economy." Though they may change in limited respects, Hall and Soskice argue, capitalist political economies are likely to experience long-term stability in their policies and institutional arrangements due to "institutional complementarities" and "equilibria in many strategic interactions of the political economy."[13] This kind of work represents a major advance in our understanding of the institutional structures and enduring diversity of advanced political economies. It also provides a parsimonious theoretical framework for refuting of the notion of convergence on an Anglo-American model of hegemonic markets, a limited welfare state, and a constrained scope for public authorities.[14]

That said, the Varieties of Capitalism approach tends to throw the political baby out with the neoliberal bathwater. By emphasizing stability and self-reinforcing institutional structures as the sources of nationally specific models of capitalism, it underestimates the capacity of politics to renegotiate the contours of political-economic institutions and redefine trajectories of economic change.[15] Furthermore, by focusing largely on firms and on the institutional contexts in which they are embedded, the approach neglects social policy, which is equally instrumental in shaping trajectories and dynamics of economic adjustment to austerity.[16] This book shows that existing institutional arrangements provide sources of nationally distinct patterns of adjustment, involving both the welfare state and the broader political economy. Such contexts are not merely sources of inertia or "institutional complementarities" that explain the enduring diversity of national arrangements. They also generate distinctive dynamics and trajectories of change, which are both shaped by inherited arrangements and renegotiated through the political process.

Like the Varieties of Capitalism approach, recent work on path dependence focuses on political and institutional stability at the expense of change. Paul Pierson, for example, argues that long-term stability in political economies is attributable to "self-reinforcing or positive feedback processes," which create a "status quo bias" within political and economic institutions. Though perspectives such as Pierson's recognize the possibility of political-economic change, their central concern with stability and continuity provides few analytical tools with which to identify the substance or dynamics of such shifts in policies and institutions.[17]

Recent work on the welfare state likewise overemphasizes the long-term resilience of national arrangements. Following the lead of Esping-Andersen's influential *Three Worlds of Welfare Capitalism,* during the past two decades, welfare-state scholars have developed typologies of advanced welfare states that describe these distinctive national arrangements and provide theoretical justifications as to why they are likely to endure. By showing that postwar social policies gave rise to powerful constituencies willing to mobilize to defend them against reform, Pierson's earlier work on welfare reform shows the political mechanisms for the stability of distinctive welfare states that scholars such as Esping-Andersen identify.[18] Though important for understanding why national welfare states have neither disappeared nor been reduced to a residual Anglo-American minimum, prevailing typologies of advanced welfare states, as well as Piersonian explanations for policy and institutional inertia, leave us with few tools to understand the significant reforms that many advanced welfare states, in point of fact, have undertaken since the 1990s.

Existing analyses of national models of welfare capitalism are not only overly static; many are also relatively myopic, focusing on developments in particular policy and institutional areas without explicating how they relate to shifts in other domains. Though focusing on a different institutional arena, scholarship on the welfare state, like the Varieties of Capitalism literature, excludes important policy and institutional arenas from its analysis of economic adjustment. By contrast, this book argues that the process of political-economic adjustment can best be understood as the development of systems of *welfare capitalism,* involving interrelated changes in both the welfare state and the broader political economy. Accordingly, a focus on either the welfare state or economic policy alone provides at best a partial understanding of the dynamics of economic adjustment.

From Crisis to Renewal: Reconceptualizing French and German Political-Economic Adjustment

In perhaps no two countries has the discrepancy between the prevailing image of stasis and the actual degree of change been greater than in France and Germany. Though their image as sclerotic and politically dysfunctional regimes of "welfare without work,"[19] marked by overly generous social benefits and stubbornly high unemployment, has been shaken somewhat by Europe's economic recovery in the mid-2000s, such portrayals have nonetheless proved resilient. When they do recognize patterns of reform and economic recovery in the two countries, many adherents of such perspectives dismiss them as temporary and conjunctural rather than part of a meaningful, sustained record of reform.[20]

A first set of perspectives attributes this ostensible failure of adjustment primarily to the perversities of the two countries' "Bismarckian" welfare states, named after the prototypical employment-based system of social benefits created under the nineteenth-century German chancellor. Because these systems finance benefits primarily through payroll taxes rather than through general taxation, they tend to lead to high non-wage labor costs, which increase unemployment by making it more expensive for firms to hire. Rising joblessness produces pressures for higher social expenditures and increased payroll-tax rates, which in turn exacerbate labor-market rigidities.

A second set of arguments identifies the sources of the alleged French and German sclerosis in institutional impediments to policy change within the two countries' economic institutions and political systems. In the German case, scholars emphasize an array of constitutional "veto points," or "places in the [legislative] process . . . where bottlenecks are likely to occur"[21]—in particular, federal and corporatist divisions of authority that yield a "restricted capacity for active economic steering."[22] Drawing from Peter Katzenstein's influential study of German politics,[23] such treatments contend that fragmented political power limits both the scale and the scope of reform, even in the (rare) presence of reform-minded governments. These limitations on state authority, combined with parochial social partners who perpetuate self-serving policies that are inimical to economic growth and adjustment, are blamed for Germany's political sclerosis and economic decline in the post-reunification era.[24] France's "poor capacity for reform" is explained by the absence of regularized bargaining between the state and social partners and the legacies of unions' and employers' historically antagonistic relations with an imperious state.[25] Such dysfunctional relationships, along with the political risks associated with welfare reform, are said to yield ambitious state initiatives that are often diluted or abandoned in response to ungovernable social protest or other forms of resistance by alienated interest groups.[26] France and Germany thus share characterizations of "difficult, blocked" public debates and governments that are unable either to enlist support for policy change or to impose reform in its absence.[27]

This book shows that these images of sclerotic, dysfunctional political economies are profoundly misleading and represent a fundamental misunderstanding of how—and the extent to which—the two political economies have evolved. Though often derided as "frozen welfare states,"[28] France and Germany have actually continued, and in many ways accelerated, the processes of political-economic change that began during the postwar boom, in terms of the substance of social and economic policy, the characteristic modes of policymaking, and the social and political coalitions that underlie them. In the process, the "national models" described by Shonfield and by scholars such as Peter Hall and John Zysman in the 1980s have been left far behind, giving way to a fundamentally different set of political-economic arrangements.

During the 1950s and 1960s, France and Germany were seen as exemplars of successful postwar recovery. Having inherited discredited social and political systems and devastated economies from the war and its aftermath, the two countries completely transformed their social, economic, and political arrangements within the space of a decade and a half. Their revamped political and economic institutions underpinned a period of unprecedented prosperity and social peace. The terms employed by observers at the time reflected the nearly miraculous character of this recovery: the *trente glorieuses,* or "thirty glorious years," of French postwar growth, and the West German *Wirtschaftswunder,* or "Economic Miracle," enshrined France and Germany as leading examples of vibrant capitalist economies and stable democracies. By the early 1960s, as two of the world's largest exporters, France and Germany had become testaments to the capacity of enlightened public policy to reconcile the imperatives of economic growth and representative politics.[29]

These processes of political and economic renewal were driven by a period of institutional and policy innovations that were suited to the two countries' challenges. The postwar French model was driven by a powerful and exclusionary state whose central goal was rapidly transforming the country from a sleepy agrarian society into a vibrant industrial economy. Under the Fourth French Republic, between 1946 and 1958, France instituted a model of dirigiste, or state-led, development that rapidly transformed the Malthusian, risk-averse models of the nineteenth and early twentieth centuries.[30] As French elites rebuilt their economy from the top down, they reformed their social-protection system, eventually expanding coverage to foster political stability and social peace. Changes in Germany were even more dramatic. Upon the ashes of the Third Reich, German governments developed a model of high-quality production and bank-centered finance that laid the foundations for a period of vibrant growth and renewal, transforming a barter economy in 1945 into the world's largest exporter by the early 1960s.[31] These arrangements were supported by a generous welfare state that promoted political incorporation, even as it shored up the legitimacy of the fledgling German democracy. They were also supported by a neocorporatist model of social partnership, which shared authority for social and economic policy among the state and other social and economic actors, enabling governments to reconcile the imperatives of rapid economic change, social peace, and political stability.[32]

During the 1970s, in the wake of the Organization of the Petroleum Exporting Countries (OPEC) oil shocks, stagnating growth rates and rising unemployment placed these arrangements under strain, undermining both economic performance and governments' political credibility. France's and Germany's fall from grace was all the more dramatic—and all the more worrying for the two countries' elites—because their postwar transformations had once seemed so complete and irreversible.[33] The advent of mass unemployment, deindustrialization, and increasing social unrest not only called into question the economic viability of the postwar French and German models of capitalism; it also eroded the legitimacy of the political and social arrangements that underlay them. This book tells the story of the twin process of political-economic transformation inaugurated by this advent of austerity in France and Germany and provides important insights into how advanced industrial countries evolve when confronting such shifts in social and economic climate.

If the 1970s were characterized by intensifying pressures on France's and Germany's postwar models, the 1980s and early 1990s witnessed their utter transformation. Following an ill-fated experiment with reflationary Keynesianism in the early 1980s, France completely dismantled the postwar dirigiste model and liberalized and privatized the economy with an alacrity that even Margaret Thatcher and Ronald Reagan could not match. After this complete reorientation of economic policy, France expanded antipoverty benefits and active-labor-market instruments to facilitate the process of adjustment and then embarked on a period of ambitious, if politically contentious, welfare reform. Following reunification in 1990, Germany integrated the devastated former East Germany into the West German Social Market Economy, expanding the welfare state and transferring institutions of industrial relations and vocational training to the East to help millions of untrained and impoverished workers adapt to the exigencies of capitalism. As in France, this seismic process of economic restructuring was supported by a process of welfare-state expansion and followed by a period of reform. In neither country, however, has welfare reform involved the dismantling of the welfare state. Instead, both France and Germany have rationalized their systems of social protection and prioritized labor-market activation even as they have preserved—and in some cases, expanded—the social safety net. In the process, they have preserved the distinctiveness of their social and economic models even as they have adjusted them to the challenges of economic austerity.

The Argument: Political-Economic Adjustment under Austerity

This book explains these transformations in the French and German models in two distinct but related arenas. First, it describes the changes in social and economic policies that have defined trajectories of economic adjustment. During the past three decades, France and Germany have revamped and reconfigured a series of policies and institutions in both the welfare state and the broader political economy, including the rationalization of social benefits, a reorientation of labor-market policies, substantial economic liberalization, and a bolstering of the social safety net.

This process of policy adjustment to economic austerity has proceeded in two distinct phases. Between the 1970s and the early 1990s, the first stage involved extensive economic liberalization supported by major expansions of the welfare state, a process that I call "socialized marketization." In France, this process began with the dismantling of the dirigiste system that had served the country so well during the "thirty glorious years" of postwar economic growth but that, by the 1970s, had become dysfunctional and maladaptive. Governments, first of the left and then of the right, not only abandoned the redistributive Keynesian agenda adopted by François Mitterrand in the early

1980s; they completely dismantled the postwar dirigiste model.[34] Though clearly liberal, the abandonment of dirigisme was not neoliberal in inspiration, however, as governments expanded the welfare state to buffer workers from the effects of liberalization and to help them to adapt to a more market-based economic system. In Germany, following reunification in 1990, authorities transformed Eastern Germany into a capitalist economy and integrated it with the West German Social Market Economy while undertaking a major expansion of social protection designed to preserve social peace and to sustain political support for a painful process of economic adjustment.

In the early to mid-1990s, French and German governments embarked on the second phase of policy adjustment, which I call "managed austerity," involving the reform and recalibration of the expanded network of social protection that had facilitated liberalization during the previous decade. In a wide range of policy areas, including labor-market policies, pensions, health care, and antipoverty programs, both countries have undertaken significant, and often politically difficult, initiatives. These reforms have aimed to bring welfare expenditures in line with social contributions, to shift from passive subsidization of the jobless to actively creating jobs, to make welfare programs more market-conforming, and to address growing demographic pressures on traditional social insurance. In labor-market policy, governments have expanded job-creation schemes, invested in new training and placement programs, reduced non-wage labor costs, and introduced conditions for unemployment benefits. In pensions and health care, reforms have reduced reliance on job-dampening payroll taxes and brought expenditures more in line with revenues. At the same time, governments have introduced measures to shelter those who have fallen through the cracks of the two countries' Bismarckian systems of social protection by expanding antipoverty benefits and shoring up compensation at the low end of the wage scale.

The book's second central argument relates to the *process,* as opposed to the *substance,* of reform. Across divergent national and policy contexts, adjustment to a climate of economic austerity involves changes in the political relationships and the dynamics of the bargaining processes through which reform is negotiated. In France and Germany, the politics of reform since the 1970s have not followed the traditional patterns of the postwar period—exclusionary statism in France and gradualist, consensual neocorporatism in Germany. Beginning during the first stage of liberalization but accelerating during the second, a "new politics of austerity" has developed, leading to major changes in the two countries' postwar political models. Economic austerity has altered the political dynamics of economic adjustment in two fundamental ways. First, it has discredited traditional political arrangements inherited from the postwar period of economic prosperity, which have failed to respond to contemporary economic challenges. As a result, new coalitions have emerged, providing renewed impetus and momentum to reform.

The second, related driver of the new politics of austerity relates not to the decline in economic performance per se, but to the failure of inherited political models to manage social and political unrest in its wake. In France and Germany, as elsewhere in Europe, the economic downturn of the 1970s and 1980s led to growing political protest that undermined the legitimacy of existing political arrangements and interfered with the capacity of political elites to see through reforms. As unemployment rates and public deficits soared and growth sputtered, governments were forced to confront a litany of policy demands, even as economic austerity, international economic pressures, and an erosion of legitimacy provided them with fewer means with which to do so. This growing mismatch between political resources and demands and an alarming incapacity to govern effectively have transformed relationships among the state and other political actors.

Over the past decade and a half, political and economic pressures for reform and the failure of inherited arrangements to fashion coherent responses to them have led to the emergence of new models of governance in France and Germany. Across a range of policy areas, from labor markets and social insurance to wage bargaining and immigration, French and German politics have begun to operate in new ways. This shift in the political dynamics helps to explain the surprising extent of reform in the two countries, and suggests that images of "frozen" political landscapes are largely based in outdated conceptions of the two countries' political systems. In France, traditional statism has given way to what I call "competitive interventionism," in which the state and social partners compete for dominance over the reform agenda and each significantly influences policy outcomes. In Germany, neocorporatist gradualism has yielded to "conflictual corporatism," in which an increasingly aggressive state has worked to force the social partners to adopt reforms in areas under their purview and often imposed reform in the absence of such agreement. This new pattern reflects significant changes in the postwar German model of consensual, gradualist adjustment as the state has become a leader rather than a follower of producer groups in defining trajectories of social and economic development.

These changes in the prevailing dynamics of policymaking have been driven by the emergence of new reform coalitions, which have replaced the traditional postwar alliances of business and the right, on the one hand, and unions and the left, on the other. Long defined by shared attitudes toward the market and the desirable balance between economic freedom and equity, these alliances have been replaced by coalitions of moderate unions, elements of the business community, and governments of the Social Democratic left or moderate right.

TABLE I.1 Post-1945 Models of French Policymaking

Period of Adjustment	Policymaking Model	Characteristics
Welfare-capitalist expansion and crisis of postwar model (late 1940s to 1983)	Classical dirigisme; Diverted dirigisme	State dominance of macroeconomic policy, industrial policy, and social policy; in 1970s, social and electoral concerns trump economic concerns
Socialized marketization (1983 to early 1990s)	De-dirigization	State-directed marketization and social-policy expansion
Managed austerity (late 1980s to present)	Competitive interventionism	Competing initiatives by the state and social partners; alternating episodes of state intervention and retreat; uneven trajectories of reform

Prompted by the failure of older arrangements to achieve economic renewal, these new constellations of actors have worked to promote labor-market adjustment even as they have sought to benefit politically by influencing the reform agenda and by portraying themselves as credible agents of reform. In both countries, these changes reflect shifts in the *operating dynamics* of existing institutions, without significant alterations in the formal political-institutional order. An important lesson of these developments is that enduring economic crisis creates new power relations and can drive the emergence of a new politics, even in the absence of major changes in a country's formal political institutions. I present a summary of these changes in Tables I.1 and I.2.

TABLE I.2 Post-1945 Models of German Policymaking

Period of Adjustment	Policymaking Model	Characteristics
Welfare-capitalist expansion (late 1940s to 1980s)	Neocorporatism/ consensual corporatism	Broad distribution of policymaking authority between state and social partners; consensual political and social relations and gradual adjustment
Socialized marketization (reunification to mid-1990s)	Expansionary corporatism	Expanded state spending to finance transformation of former East Germany into a market economy; other corporatist arrangements left unchanged
Managed austerity (mid-1990s to present)	Conflictual corporatism	Increasing insularity of policymaking; conflicts with social partners and political opposition; state bypasses established neocorporatist channels and procedures; uneven trajectories of reform

The Book in Brief

This book provides a new understanding of how advanced industrial societies adjust to austerity. Though important in historical perspective, such a task is particularly crucial today, when the entire advanced industrial world is confronting a series of daunting, and in some ways unprecedented, challenges to its political-economic arrangements. By shedding light on how national political economies adjust across a range of policy and institutional contexts, the book offers a more complete understanding of the nature of contemporary capitalism, a more precise identification of the policies and institutions that are critical to political-economic adjustment, and insight into the kinds of policies and institutional arrangements that are most likely to contribute to sustainable processes of adjustment.

Chapter 1 offers a theoretical analysis of the politics of economic austerity and shows that prevailing political dynamics have been redefined as French and German policymakers have turned to liberalization and welfare reform. It shows that the development of new political models and policymaking dynamics have involved the emergence of new reform coalitions in both France and Germany, as the advent of austerity has altered the political incentives facing key political actors. These shifts in incentives have been accompanied by changes in political opportunities, as the discrediting of older models and previously dominant actors (the state in France and the social partners in Germany) have enabled other actors to capitalize politically and exert greater influence over reform.

The book's empirical chapters analyze how France and Germany have responded to shifts in the prevailing political-economic context since World War II. Chapter 2 focuses on the postwar "golden age" of vibrant economic growth, an era of "welfare-capitalist expansion" during which the postwar French and German economic models and welfare states were created. In France, authorities fashioned a dirigiste model designed to modernize society and the economy from above while creating the most comprehensive welfare state the country had ever known. In Germany, the Social Market Economy, supported by bank-led development, an extensive welfare state, and neocorporatist bargaining structures, laid the foundation for an economic miracle of rapid, export-led growth and rising incomes.

Chapters 3 and 4 analyze the dramatic changes that the two countries underwent during the period of "socialized marketization" in the 1980s and early 1990s, when they undertook unprecedented projects of liberalization and marketization supported by welfare-state expansion. Chapter 3 describes French policymakers' abandonment of the postwar edifice of dirigiste development in the 1980s. In 1983, France abruptly abandoned its "redistributive Keynesian" platform of massive aid to industry and stepped-up industrial policies. In the ensuing decade, French authorities undertook a wholesale dismantling of the dirigiste edifice of voluntarist industrial policies, large "national champions," inflationary public spending, and "aggressive" devaluations. The government redeployed and extended the welfare state to cushion workers from economic dislocation and to preserve social peace even as it privatized, liberalized, and slashed the public sector.[35]

Chapter 4 analyzes the process of German reunification in the early and mid-1990s, which involved the monumental task of absorbing the formerly communist East and transforming it into a market economy. Reunification entailed both the social and economic integration of two complex and disparate societies and the fundamental transformation of a devastated communist system into a functioning capitalist economy, all within a few years. This process required the devotion of massive financial resources and a major expansion of the German social-protection system. The challenges of reunification also led the state to adopt a more central role in the policymaking process, auguring a further shift in this direction during the subsequent period of welfare reform in the 1990s and 2000s. In both France and Germany, then, the 1980s and early 1990s witnessed far-reaching processes of liberalization supported by expansions of the welfare state designed to support a transition to a more liberal economic order.

In Chapters 5, 6, and 7, the book turns to the contemporary period of "managed austerity," involving the rationalization of labor markets and social protection. Since the early to mid-1990s, both France and Germany have enacted reforms that have cut costs and sharpened incentives to work even as they have sought to maintain or even extend protection to disadvantaged groups while rewarding employment, investment, and economic innovation. In Chapter 5, the book analyzes reforms in labor-market policy, which have involved a shift from passive subsidization of the unemployed to active policies designed to reintegrate excluded groups while reducing unemployment and reliance on traditional jobless benefits. These reforms have attenuated, if not eliminated, many of the perversities of the two countries' "welfare-without-work" syndromes. As enhanced labor-market performance has become a central focus of policymaking, reforms in many other areas have been undertaken with a view to replacing the traditional strategy of reducing labor supply with the promotion of labor-market activation.

Chapter 6 turns to the second major component of recent French and German reform, involving changes in the two countries' social-insurance programs. The primary targets of such measures have been pensions and health care, which represent huge financial burdens and have come under increasing pressure from aging populations and declining social-contribution receipts. Since 1990, French and German governments have limited benefit and reimbursement rates, increased state authority over health-care budgets and administration, partially shifted funding from social contributions to general taxation, and increased contribution periods required for pension vesting. Particularly in Germany, governments have also extended the scope of market forces in health care by increasing patients' choice among health-care providers and forcing doctors to compete for resources based on their record of cost-containment.

In Chapter 7, the book turns to programs of income support designed to shelter workers from poverty while helping the labor force adjust to an era of more market-friendly welfare states and labor-market activation. In France, governments of both the left and the right have expanded the network of income-support policies, reflecting a sustained effort to fill gaps in the contributory, Bismarckian social-security system created during the late 1940s and 1950s. In Germany, by contrast, authorities have prioritized active labor-market policies, supplemental pensions, and education benefits while beginning to experiment with sectoral minimum-wage laws, an unprecedented development in a country where *Tarifautonomie,* or "wage independence," has long reserved wage setting to the social partners. Authorities in both countries have worked to ensure citizens' access to basic income even as they have encouraged them to seek out and accept the jobs that economic liberalization and active labor-market policies are helping to create.

The Conclusion provides an overview of the trajectories of French and German welfare-capitalist adjustment and assesses the book's contributions to the literatures on national models of capitalism, welfare reform, path dependence, and institutional change.[36] It argues that the dynamics of adjustment to economic austerity are shaped by both inherited political and economic institutions and politically negotiated bargains that are reconfigured during the process of reform. It also suggests that these bargains often develop in ways that are quite surprising in view of formal distributions of political authority and that the failures of earlier political models are frequently as important as the capacities of current ones in defining both the style and substance of reform. In France and Germany, as in other advanced industrial democracies, therefore, the dynamics of political and economic change are tightly linked, and neither can be properly understood without careful attention to the other. It is in this sense that the systems of "welfare capitalism" invoked in the book's title should be understood: as mutually constitutive, mutually supportive, and evolving components of political-economic order.