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Models of Capitalism in Europe: Towards the Return of the State?*

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The present economic crisis has sparked a new debate in a wider political and academic public about the role of the state in advanced capitalist societies. The paper discusses this issue in a comparative perspective: How have different models of capitalism in Europe coped with major economic and societal challenges before the present crisis? Taking the UK and Sweden as flagship examples for contrasting models of capitalism in Europe, and Germany as an increasingly controversial case between these poles, the paper describes major moves taken in these three countries, from the mid-1990s, to tackle the challenges of globalisation and the liberalisation of EU labour and product markets, and to respond to societal changes such as ageing and the changing gender roles. It concludes with a comparative assessment of changes in these three models of capitalism in Europe before the current economic crisis as a basis for an outlook at the respective prospects in the near future, given the legacies of this crisis for public budgets and the capacities of the states.

Key words: varieties of capitalism, co-ordinated and liberal market economies, role of the state in contemporary capitalism, welfare and gender regimes

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1. Introduction

The massive economic and financial crisis of 2008 and 2009 triggered a new debate on the future role of the state in capitalist economies. This is hardly surprising. The contrast between the billions pumped in by governments in an attempt to save their economies and rescue their financial institutions and the previously almost undisputed article of faith that the 'market' achieves the best possible outcome and that the state should keep out of the economy as far as possible is indeed dramatic. True, Nicolas Sarkozy might well have been accused of exaggeration when he declared that 'the ideology of the dictatorship of the market and the powerlessness of the state died with the financial crisis' (FAZ, 24.10.2008). Nevertheless, the contrast between this ideology and the measures governments across the world had to take in order to stem the crisis most certainly give us every reason to examine the extent and substance of the 'return of the state' (e.g. Leibfried 2008, Huffschmid 2008).

However, the question – also posed by the authors referred to above – is what is meant by 'return'. Even in the heyday of the market mythology, the state was never actually absent. Indeed, the basic conditions for the development of the gigantic bubble in the financial markets and for the dominance of the financial over the 'real' economy were actually created by government action, namely the deliberate elimination of the existing regulations and fiscal framework within which economic actors used to operate (Krugman 2007). At the same time, the neo-liberal state took on new tasks and, particularly in the wake of privatisation policy, developed into a 'market creating state' (Levy 2006). Thus neo-liberalism always required the existence of a state capable of acting.

The most forcible objection to the idea that the state has become less important in the era of neo-liberalism is surely that raised by the varieties of capitalism school (Hall/Soskice 2001). This strand of the institutional tradition can be reduced in its essence to the idea that market transactions – the starting point for all classical and neoclassical analysis in economics – are impossible in practice without the existence of social institutions (cf. the stimulating retrospective survey by Coates 2005). The most important argument of this school is that productivity and growth can be promoted not only

by arrangements that allow the much vaunted free play of market forces the scope it requires to operate but also by those institutional systems that serve as barriers to the spontaneous working of market forces. In 'coordinated market economies', the latter can be as effective in promoting economic growth and employment as the former in 'liberal market economies', provided that the institutional system has a sufficiently high level of coherence and complementarity to encourage firms to adopt a long-term approach to their activities. Thus in the 'coordinated market economies', of which Sweden and Germany are always named as typical representatives, in contrast to the UK, which is regarded as the flagship of the 'liberal market economy' in Europe, the leading actors' interest in a regulating state as an important anchor of the entire institutional system probably did not weaken even in the years of neoliberal dominance (Hall 2007).

In contrast to this view of things, critical references have been made to the risk of functionalism (Crouch/Farrell 2002). In the face of the 'broad process of liberalisation' (Streeck/Thelen 2005) that has become ever more dominant even in Europe since the 1980s, there have, it is true, been various forms of institutional change, but in essence they have always involved adjustment to this fundamental tendency of contemporary capitalism. If this line of argument is followed, then the 'return' of the state would probably be confined to a temporary renaissance of economic stabilisation policy and an attempt to use regulation to contain undesirable developments in the financial markets. This would be absolutely consistent with the mainstream that can currently be observed in the economic policy debate within the EU.

Our concerns in investigating the change in European employment models (see footnote 1 above) were somewhat different from those in the strands of the literature referred to above. *Firstly,* we examined the interaction between the institutional *architectures* of national models of capitalism and the leading *actors* in state, economy and society. Fundamental tendencies in contemporary capitalism, such as the 'broad process of liberalisation', come up against particular political power relations in different countries and, depending on the precise power relations in question, the leading actors position themselves relative to the existing institutional system. They may develop and pursue strategies aimed at adjustment or even revitalisation, they may,

through inactivity or political failure, encourage the erosion or undermining of the institutional arrangements or they may actively pursue the dismantling of existing institutions. *Secondly,* we started from the assumption that the neo-liberal mainstream is not the only source of pressure to adjust impacting on existing models of capitalism. Pressure for change is also generated by major *social* changes, such as the shift in gender roles, increasing ethnic diversity and the ageing of European societies, all of which are processes that can be included under the heading of 'demographic change'. The leading actors' reactions to these processes, which to date have been examined primarily in the debate on the change in welfare states (Esping-Andersen 1999) but have been largely ignored in the varieties of capitalism literature, are not of course uninfluenced by the dominant neo-liberal philosophy. At the same time – and this applies particularly to the change in gender roles – they constitute changes in social behaviour and thus have an effect on political power relations.

Adopting such a perspective results in a distinctive approach to the question of the 'return of the state'. Firstly, attention is drawn to the differing strategies adopted by leading actors in different countries in their efforts to meet the fundamental challenges to national models of capitalism arising out of processes such as globalisation or demographic change. Secondly, the interplay of these very different challenges creates space to consider the potential for future developments (and the political mobilisation of that potential), the direction of which does not in any way have to be predetermined by the currently dominant trends, however powerful they may be.[1] This is the approach used in the present article to outline the different paths that, despite many similarities, the implementation and assimilation of the neo-liberal mainstream and reactions to changing gender roles can take in European models of capitalism. Are the actors incorporating the potential for social inequality harboured within the 'liberalisation process' into the architectures of the various models or seeking to contain it? In what ways are they reforming those architectures in order to absorb and make use of the potential

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[1] This aspect of our approach will undoubtedly be of particular interest to a journal dedicated to 'action research'.

for developing the individual and societal labour capacity released by the changes in gender roles?

These questions are discussed here in two stages. We begin by showing, with the aid of examples, that trends towards adjustment to the 'liberalisation process' observed in past years have not led to convergence among the various models of capitalism or to harmonisation of their social contents. Drawing on three textbook examples of the European models of capitalism, namely Sweden and Germany as representatives of the 'coordinated' variant and the UK as the representative of the 'liberal' variant, the main features of the various national reactions to the challenges of neo-liberalism are outlined and the new tensions facing these models at the start of the current crisis are described. In the second stage, we examine the different ways in which these three models of capitalism are adjusting to the change in gender roles. In the concluding summary, it will be made clear that, in view of the social damage brought about in past decades, it is now necessary to redefine the functions of the state, the content of which will depend essentially on the strength of social pressure and the self-confidence of the actors. In essence, what is at issue here is not a new era of 'unquestioning faith in the state'. However, the starting point for any redefinition of the functions of the state is rejection of the state's unquestioning faith in the market.

2. Varieties of capitalism – Room for political manoeuvre

The current crisis has triggered changes in the functioning of contemporary capitalism whose effects will be felt in the long term. A synchronous world-wide economic crisis, which is unusual enough, is directly linked to the bursting of the gigantic speculative bubble that had built up for 30 years over several economic cycles (Foster/Magdoff 2009). The reversal of the relationship between the financial and 'real' economies that lies behind it was summarised, with reference to the US, by Reich (2008: 98) in the following catchy phrase: 'Before 1980 Wall Street was the lackey of manufacturing industry (...). After 1980 manufacturing industry became the lackey of Wall Street'. Profit rates which could be 'produced' in the financial industry were increasingly regarded, and imposed, as benchmarks for the profitability of

companies in other sectors such as manufacturing and non-financial services. This implementation of the shareholder value principle is closely linked with such fundamental tendencies in contemporary capitalism as globalisation (intensification of inter-firm competition in the global market, radical changes in the international division of labour, technological revolutions in communications and transport), the deregulation of product, financial and labour markets at nation state and supranational level and, not least, the advent of services as the most labour-intensive sector of the advanced capitalist economies – with far-reaching consequences for the reshuffling of the cards in 'industrial' relations. At the heart of this 'capital market-driven capitalism' (Huffschmid 2002) lies the weakening of the state's socially compensatory function.[2]

In Europe, globalisation has gone hand in hand with 'Europeanisation': the creation of the EU internal market in conjunction with the introduction of the free movement of capital, goods, services and labour, the Eurozone stabilisation rules and the privatisation of state-owned companies and increasing sections of public services, as well as the ensuing spread of market-based forms of governance across the public sector. Europeanisation was and continues to be implemented by governments that then proceed to invoke the 'constraints' of the globalised economy and the rules laid down by international institutions such as the EU. Once set in motion, these rules and processes exert massive economic and political influence on nation states and their particular models of capitalism, developed over the previous decades. Globalisation and deregulation have left deep marks on economic and social regimes (Stiglitz 2002).

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[2] For the US labour market specialist and former labour minister Robert Reich (2008), the decline in the state's socially compensatory role, which he describes with reference to the USA, also constitutes a democratic deficit. I also consider this assessment to be important, because advocates of the 'liberal' form of capitalism that has been plunged into crisis never tire of identifying 'more state' with 'more bureaucracy'. The decisive point here is not that the criticism of bureaucracy is unjustified. On the contrary: a considerable part of the mass basis of neo-liberalism can probably be attributed to alienating experiences with state bureaucracy. There are indeed considerable shortcomings in state action, but the institutional rebuilding that has gone on in past decades, involving the systematic elimination of obstacles to the dominance of the financial markets, has probably given rise to the most dangerous shortcomings.

Given the power with which this neo-liberal mainstream was launched in previous decades, it can reasonably be assumed that it must lead ultimately to convergence among the various models of capitalism that have evolved historically. Thus Coates (2000: 250) advances the argument that institutions in the various national models may continue to differ in form, but that the effects of these differences on the living conditions of dependent employees will become increasingly less significant. He concludes that 'The models have stopped working.'

This argument certainly has a kernel of truth, but I regard it as questionable nevertheless. This is evident from scrutiny of a few indicators of inequality that can be expected to have undergone particularly far-reaching changes in the wake of the liberalisation process.

2.1 Are the models still working?

In most Western countries, the increase in social inequality lies at the heart of the changes that have taken place since the end of the strategic class compromise that remained in place for three decades after the end of the Second World War. It is an essential part of the causal relationship on which the rise of the financial markets and the implementation of the shareholder value principle are based (Huffschmid 2002). One manifestation of this change is the reversal, 30 years ago, of the trend in the wage-profit ratio within the EU (table 1).

Table 1: Adjusted wage share in EU-15*

1960-1970	1971-1980	1981-1990	1991-2000	2007
71.3	72.7	70.1	67.6	64.9

* Employee compensation per employee as % of GDP adjusted for factor costs per employee
Source: ECFIN (2008: 97)

A further aspect of social inequality is the distribution of gross income from dependent employment. This indicator is also particularly meaningful because most top earners not only have income from capital but are also dependent employees. Here too, the dominant trend at least since the mid-1990s is abso-

lutely clear: in virtually all EU member states, the income gap has widened further. However, closer examination of the distribution structure reveals that not only do the levels of unequal distribution continue to differ considerably from each other but that the rate and structure of the widening of the income gap also vary greatly (table 2).

Table 2: Changes in income distribution in selected OECD countries*

	Relationships between income deciles					
	9:1		9:5		5:1	
	1995	2005	1995	2005	1995	2005
Sweden	2.20	2.33	1.59	1.68	1.39	1.39
Finland	2.34	2.42	1.66	1.70	1.41	1.43
Denmark	2.47	2.64	1.69	1.73	1.46	1.53
Netherlands	2.77	2.91	1.71	1.76	1.62	1.65
France	3.08	3.10	1.93	2.01	1.59	1.54
Germany	2.79	3.13	1.79	1.84	1.56	1.70
UK	3.48	3.51	1.88	1.96	1.85	1.79
Spain	4.22	3.53	2.10	2.14	2.01	1.65
Ireland	4.01	3.57	1.98	2.07	2.02	1.72
Poland	3.40	4.31	1.97	2.18	1.72	1.98
USA	4.59	4.86	2.17	2.31	2.11	2.10
Hungary	3.96	5.63	2.09	2.46	1.89	2.33
OECD**	3.12	3.39	1.81	1.93	1.70	1.73

* Gross income of full-time dependent employees; the higher the value, the greater the earnings dispersion. The first column shows the change in the income spread between the richest and poorest decile of wage and salary earners, the second that between the richest decile and the average income and the third that between the middle and lowest decile (measured at the upper limits of each decile). The data are comparable over time but not fully between countries. Countries ranked by ratio of 9th to 1st deciles in 2005.

** unweighted average

Source: OECD (2007a: 268)

With regard to levels, there are no surprises: Northern Europe has the smallest earnings dispersion, while two of the new EU member states included in the OECD statistics, together with Ireland, Spain and the UK, have the widest income gaps in Europe. Perhaps the only surprising thing to note is the gap between the UK and the USA, which are usually included in the same 'liberal' variety of capitalism. However, the rate and structure of the changes do

not match all the usual expectations. It is true that inequality in Northern Europe has increased only slightly, but the same applies to the UK. The reason is to be found in the data on the upper and lower parts of the income pyramid. Everywhere, even in Northern Europe, inequality in the upper half of the income range has increased. From Sweden to Spain, the incomes of the top ten per cent are moving away from those in the middle of the range. In contrast, middle incomes are evolving in the opposite direction relative to those in the lowest part of the range. In many countries, including Germany, the gap is widening here too, but in Sweden it has remained constant, at a low level, while in France, Ireland, Spain and the UK (!) it has actually narrowed.

The widening income gap has many causes, which cannot be investigated in detail here.[3] What matters for our present purpose is the role of power, policy and political power relations as they interact with the architectures of national employment models. This is made clear by examination of the different trends in income inequality in Sweden, the UK and Germany. In all three countries, it is true, the earnings dispersion in the upper half of the pyramid has increased; however, the trends in the lower half have been in the opposite direction: stability in Sweden, increased inequality in Germany and a decline in inequality in the UK. The most important reason for the surprising development in the UK is probably to be found in the introduction of a statutory minimum wage and its stepwise increase since 1998 (Bosch/Weinkopf 2006). As a result of this policy initiative, the increased inequality in the

[3] Particular emphasis is placed in the literature on changes in skill structures and labour market shortages, the rise of the service economy, and in particular of labour-intensive activities, the increase in precarious employment, locational competition in the global economy and, not least, unemployment (cf. the literature survey in Saniter 2007). In more recent publications on the long-term evolution of the income distribution in the USA, however, there have been increased references to the importance of the power aspect, which in the earlier economic literature was a self-evident element of the analysis: 'The strengthening of income equality for a whole generation after the Second World War, when wages kept pace with productivity at national level, was the result of a policy that began in the Great Depression with the New Deal and was strengthened after the war by political action, both by the state and in private industry. Income stability was the not the result of the 'natural' working of economic processes; rather it was the result of policy intended to encourage it' (Levy/Temin 2007: 39).

upper half of the income distribution has been almost completely offset by the decline in inequality in the lower half.

Germany, on the other hand, has experienced the greatest increase in inequality (taking both halves of the income distribution together) of all the EU-15 countries included in the OECD statistics. The decline in coverage by collective agreement, on the one hand, and the absence of a statutory minimum wage, on the other, have left a clear imprint on the income distribution in Germany within a short space of time. It should also be noted that the OECD statistics include only full-time employees. Since the employment structure in Germany shifted during the period in question strongly in favour of part-time working and particularly so-called 'mini-jobs' and there is a disproportionate share of low earnings in these areas (Lehndorff et al. 2009), the result would be even more unfavourable for Germany relative to other European countries if part-timers were included in the analysis.

The admittedly very crude indicators presented above embolden us to advance the initial argument that the effects of the great 'liberalisation process' differ depending on the institutional environment, political power relations and what policy objectives set by the leading actors it encounters in individual countries. It is the interaction of these factors that determines how national models adapt to the neo-liberal pressure for change. This argument will now be examined in greater detail, taking as the basis for discussion the contrasting examples of Sweden, Germany and the UK.

2.2 Sweden, the UK and Germany: policy matters

Sweden, Germany and the UK are, respectively, the flagships of the 'coordinated' and 'liberal' varieties of capitalism in Europe. Sweden and the UK stand out particularly by virtue of some surprising similarities. Although, as might be expected, certain indicators of social inequality reveal considerable difference between the two countries (see table 2 above), until the current crisis they had by far (besides Denmark) the highest employment rates in Europe. At the same time, governments in both countries (in the 1990s in Sweden and since the end of the 1990s in the UK) succeeded in revitalising their national employment models, at least temporarily.

For some years, the *Swedish* model has been regarded in EU and even OECD documents as an example of successful economic, employment and social policies, despite having been pronounced dead by many in the 1990s. In fact, it has been through several profound crises in the past three decades, starting with the economic collapse triggered by the early opening-up to the global financial markets (Ryner 2002; Dølvik 2009). Sweden was also one of the pioneers of product market deregulation and of so-called active labour market policies, which it introduced before it joined the EU and such strategies became part of EU policy dogma. Such adjustments to the 'liberalisation process', which were seen by Swedish Social Democrats as their variant of the 'Third Way', are balanced socially by the universal welfare state and the system of industry-level collective agreements (I return to this subject below; cf. on this and what follows Anxo/Niklasson 2009). Against this background, the above-averagely positive assessments by employees of their working and employment conditions (Seifert/Tangian 2009) is understandable.

A key element in the institutional change in Sweden following the most recent, particularly deep crisis of the first half of the 1990s was industrial relations. The centralised collective bargaining system was broken up at the beginning of the 1990s. This considerably reduced the country's capacity for economic management; at the same time, the welfare state came under enormous pressure as a result of the economic crisis and the need to restructure in response to globalisation and its impact on the small and open Swedish economy. With active support from the state, which made use of the whole gamut of its capabilities, from monetary policy via research policy to labour market policy, trade unions and employers' associations agreed on a new combination of centralised and decentralised collective bargaining. The traditional system, based on a 'solidaristic incomes policy', was supplemented by the introduction of a considerable degree of flexibility at firm level. The pension reform introduced at the end of the 1990s (in a period of economic growth!) can be seen as a similar coordinated and measured adjustment to the liberalisation process. On the one hand, it strengthened the equivalence principle, but at the same time introduced private elements to supplement the state pension scheme (Palme et al. 2009). The economic basis for these reforms was an increase in international competitiveness resulting

from considerable state and private expenditure on research and development (with priority being given to the IT industry) and on the education and training system; the model is 'financially sustainable in conjunction with a highly productive market sector' (Becker 2008: 246). According to calculations carried out by Sauer et al. (2007), the high level of education, together with a relatively egalitarian income distribution, made a particularly important contribution to the rapid growth that occurred in Sweden and other Northern European countries from the end of the 1990s onwards.

Against this background, Anxo/Niklasson (2009) speak of a 'renaissance' of the original Swedish model. At the same time, however, they note that this revitalisation has not in any way led the Swedish employment system into calm waters, as indicated by the Social Democrats' loss of power at the 2006 parliamentary elections. The current government's reform of the unemployment insurance system is intended not least – and not without success – to weaken the trade unions' institutional power.[4] Persistently high levels of unemployment by Swedish standards and a high level of early retirement are putting a strain on the welfare state's financial base. The temptation to promote the employment of low-skill workers by expanding the private service sector with the aid of a low-wage segment is gathering considerable political momentum. However, this would further increase the need for income redistribution through the welfare state. At 48.3%, Sweden has the second highest tax and social security contributions rate in the OECD (after Denmark, at 48.7%; 2007 figures).This compares with 36.3% in Germany, 36.1% in the UK and an EU-15 average of 39.8% (OECD 2009: 75). The amount of redistribution contained within this figure is always a potential source of conflict; the benefits it provides must be persuasive and it requires a broad base within the population and strong support from politicians and the public. Continuity through change is obviously not a closed chapter in the development of the Swedish model of the welfare state.

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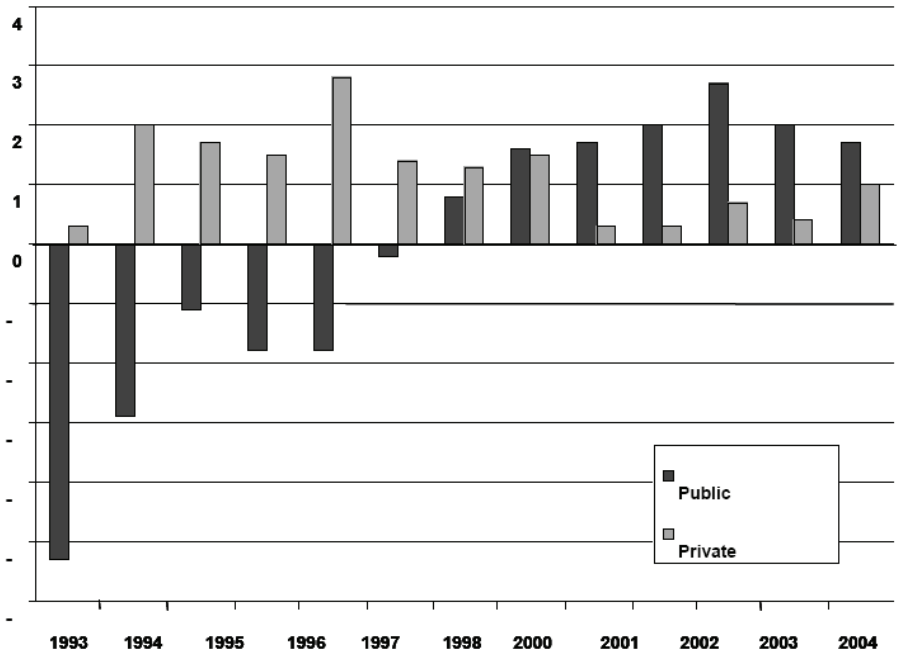
[4] The trade unions traditionally managed the unemployment insurance system, which assured them high membership rates; this institutional connection (the so-called 'Gent' system) is currently being dismantled and at the same time trade union membership is being made more expensive (Dølvik 2009).

Something similar can already be said with some certainty about the employment model in the *UK*. As Rubery et al. (2009) note, up until the outbreak of the present crisis, British capitalism had developed considerably more successfully than she, and many other sceptical commentators besides, had assumed in the mid-1990s. After the decline of traditional manufacturing industries, hastened by the Thatcher government, the dynamic centre of the British economy shifted increasingly to the growth of financial services, the export of services (assisted by the English language) and to a relatively restricted range of industries (such as oil and pharmaceuticals) tailored to the US market in particular. Between 1983 and 2008, the gross value added produced by British manufacturing rose by around 35%, while the figure for the service sector was 150% (Thibault 2008). At the same time, the rapidly expanding service sector proved itself able to absorb the graduates of the fast-growing higher education system (in a context of low levels of specialisation and high external mobility in the labour market). This in turn was consistent with other factors, such as the relative youth of these graduates, which meant they tended to settle down and start families at a fairly young age, thereby contributing to the UK's relatively high birth rate. All these factors helped to make the British model one of the successes of globalisation. However, the increased social polarisation associated with it, and in particular the spread of unemployment, precarity and poverty among low-skill workers, became increasingly to be seen as a liability, so that the Conservatives were eventually voted out of office. The 'Third Way' policy adopted by New Labour in the late 1990s set important new priorities within the architecture of the liberal welfare state, with an emphasis on fighting poverty (particularly among single-parent households). One of the cornerstones of this new approach was the linking of in-work benefits with a newly introduced statutory minimum wage. Given the low level of labour market regulation, this linkage was unavoidable if an explosion of state-funded wage subsidies was to be avoided. At the same time, it had the effect, already alluded to above, of making the UK one of the few countries in which the earnings dispersion has hardly increased in the past ten years, although the initial level was of course already high.

Another new feature was increased public expenditure on health and social services. The expansive public expenditure policy which, since the UK is not bound by the Maastricht criteria, followed self-defined guidelines linked to the economic cycle, made a decisive contribution in the first five years of the new century to the growth of the economy and of employment. This represented another necessary shift of emphasis within the British growth model. The 2001 recession saw a significant decline in the employment dynamic in the private sector. It is true that a collapse of the private sector was avoided because of private consumption funded by mortgage loans and based ultimately on rising house prices, so that the economy, wages and employment grew in the first decade of the new century at considerably faster rates than in Germany, for example. However, the decisive impetus for employment growth was now coming from the state. Between 1998 and 2005, the number of public-sector employees rose by more than 600,000. (figure 1) with the main focus on health, education and social services. At the same time, the associated awarding of contracts to private service providers created new employment effects in the private service sector (i.e. outside financial services as well). Between 2000 and 2003, around 550,000 private-sector jobs were created directly by increased public expenditure, so that the entire net increase in employment in the UK since 2000 was attributable to higher public expenditure (Edmonds/Glynn 2005).

All this changed nothing fundamental in the architecture of the British model, with its combination of a low level of labour market regulation and a 'residual' welfare state focused on combating poverty. However, important new elements were added to the model, strengthening its social dimension. 'The differences from the US model and the similarities with Europe are even greater now than they were in the mid-1990s', wrote Rubery et al. (2009), explicitly rejecting the frequently used term 'Anglo-Saxon model'. At the same time, the UK's current economic problems reveal just how fragile the economic foundations of this 'Third Way' were. The excessive importance of the City as a global financial centre, promotion of which continued seamlessly under New Labour, together with the credit and house price bubble that was such an important driver of household consumption, have proved to be the Achilles' heel of the liberal model's success.

Figure 1: Annual employment growth in the public and private sector in the UK, 1993-2005 (in %)



Source: Hicks (2005)

Compared with the changes that have taken place in the British and Swedish models of capitalism, the German model of capitalism has been through a period of radical change (on what follows, cf. Lehndorff et al. 2009). Two decades ago, towards the end of its heyday, the core of the German model could be characterised as a combination of economic dynamism and low social inequality. With the aid of generalising institutions, such as the industrial relations system, labour law and the welfare state, the strategy of high value added and high-quality production in a manufacturing sector geared to producing for the global market, which was fostered by long-term relations within capital and between capital and labour, worked to the advantage of the economy as a whole and of broad sections of German society. From the 1980s, however, it became increasingly clear that 'capitalism had become determined to break out of the social-democratic stable in which it had been

pressed after the war' (Streeck 2009: 235). In the 1990s, after the major economic and political turning point of German reunification, this determination began increasingly to influence public debates and political decisions, until it became the dominant paradigm during the period of the SPD-Green coalition government. The image of Germany as the 'sick man of Europe' (Sinn 2003), whose economy was becoming the great loser of globalisation because of high wages and rigid labour market regulations and whose welfare state was becoming 'unaffordable' and threatened to stifle the entire economic dynamic, encapsulates the dominant perception of the country purveyed by its economic and political elites and the media until the middle of the decade that has just finished.[5]

As a result of these changes, the parties to collective bargaining have been weakened and the scope of their agreements has shrunk considerably. The labour market 'reforms' have encouraged the growth of social inequality and the widespread perception of increased job insecurity, even in the economic upturn of the two years prior to the current crisis. Tax reforms have reduced the state's ability to counteract the declining job creation potential of Germany's export industries. It is true that these industries have been able to reclaim their position as world leaders that they had temporarily lost, but in doing so they took advantage of the new environment of increasingly social and institutional disintegration and fragmentation, which has made a significant contribution to their ability to compete on price. The rapid expansion of the low-wage sector has become a symbol of the social fragmentation and disintegration that characterise the new German model.

The fragmentation of industrial relations and the deterioration of working and employment conditions contentiously have become important elements

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[5] Even Streeck (2009: 252) partially appropriates this self-perception when he writes that the 'postwar state of organized capitalism (found) at some point its resources for social protection exhausted', and that the German state's espousal of 'policies of liberalization' was intended 'to relieve it of responsibilities it no longer has the capacities to carry'. His argument, which is actually intended to be a plea for a revival of analyses of capitalism, becomes at this point an implicit justification of the policy of 'state withdrawal' implemented over the previous decade (Bofinger 2008). As a result, 'capitalism' emerges as a subjectless dynamic that the institutions of German capitalism that have existed hitherto have been unable to withstand.

of the export production model that was so celebrated until the autumn of 2008. At the same time, however, they have also become the Achilles' heel of the employment model as a whole.[6] In contrast to the heyday of the old employment model, the generalising institutions are now considerably less robust, with important elements having been damaged or even partially eliminated. The model's 'architecture' has been fundamentally destabilised. The result is a vicious circle: wage increases can be achieved quite readily in the export-oriented manufacturing sectors but not in those sectors oriented to the stagnating domestic market, which is where large swaths of the private and public services are located. Although this has reduced costs in the economic environment in which the export machine operates, stagnating wages and expanding areas of precarious and/or low-wage employment do not provide an adequate basis for increasing domestic demand.

Thus the German employment system has developed in a direction in which economic success depends increasingly on competition based on labour costs and less on the broadly-based deployment and development of the innovative potential of skilled workers. The focus of attention is increasingly on reducing labour costs rather than the development of labour capacity (*Arbeitsvermögen*) that could be an asset for society as a whole. The welfare state's redistributive function has also been seriously weakened by a series of tax and social reforms. Thus the world export champion was brought down to earth in the autumn of 2008 by circular relationships within the economy. Economic success that is increasingly based on disintegration and fragmentation must be fragile. If we are to assess Germany's strength as it went into the current crisis, then it has to be said that the crisis was not simply the result of external shocks but was also internally generated. The country's 'reformed' model was ripe for crisis.

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[6] Moreover, they have equally become an Achilles' heel of the balances within the world economy in general, and the Euro zone in particular. In the spring of 2010, the French government sparked a public debate about the sustainability of the German export model based increasingly on labour cost competitiveness, at the expense of the development of the internal market in Germany. In fact, it was exactly at the strategic turn of German labour market policy in 2003 with its impacts on the wider field of labour relations and income distribution when domestic demand per capita in Germany began to be left behind by domestic demand per capita in France (Duval 2010).

Interestingly, however, it is those institutions of the traditional German model that survived the earlier period of 'labour market reforms' that have proved, in the crisis, to be stabilising factors in the labour market. They include the powerful instrument of short-time working, collective agreements that safeguard jobs and the rights of works councils to codetermination. Germany's economic downturn in 2009 was particularly severe by EU standards, while the feared collapse of the labour market has not happened, at least for the time being. This could give renewed sustenance to the disputes about the future of the 'German model' in the years to come.

2.3 Parallels and contrasts

In contrast to Germany, the adjustments of the UK and Swedish employment models were based on above-average levels of economic growth, which was actively promoted by the state and the central banks. Both the Maastricht criteria and the current version of the ECB rules would have been obstacles to renewal in both variants. However, the economic contrast between these two variants of the 'Third Way' is strikingly underscored by the most recent developments. In economic and social terms, the Swedish way is considerably more sustainable than the British way, which is largely built on the quicksand of the financial markets. At the same time as maintaining a high level of employment in the public sector, the Swedish model seeks to reinforce the advantages of specialisation in world markets by focusing on highly productive manufacturing industries in order to provide the basis for creating value added. However, the comprehensive welfare state, which under these economic circumstances – and the associated high level of employment – is affordable, requires a strong political consensus within Swedish society.

The revitalisation of both models over the past ten to 15 years also brings home the importance of the interactions between architectures and actors in the various employment models. In line with the liberal nature of the British model, the strengthening of its social elements was largely the result of government action, trade union influence being too weak to counter the negative effects of liberalism on employment and working conditions (see below). The Swedish trade unions, on the other hand, have once again proved to

be the cornerstone of the employment model. It is not without reason that the current government is sawing away at the institutional roots of trade union influence. However, the scale of state action certainly stands out as a major similarity in the evolution of the Swedish and British models. For all the lip service both countries' social-democratic governments, each beholden to their respective versions of the 'Third Way', have paid to the importance of the 'free market', they showed themselves as less fervent believers in the market than the SDP-Green coalition government, which came into office claiming they were going to emulate New Labour. Sweden has never called its strong state into question, while the strengthening of the state was the implicit agenda of a British government that preached neo-liberalism to its unsuspecting German friends.

In contrast to these two examples of continuity through change, the German model, one of the flagships of the 'coordinated market economy' in Europe, has undergone a fundamental change of character under permanent bombardment from debates and 'reforms' inspired by neo-liberalism. To a considerable degree, it has lost its long-established ability to translate economic success into social success. Combined with the conservatism of the German welfare state, model of the family and education system, which to date has been overcome only in certain respects, this has produced a 'toxic mix', which is proving to be a considerable obstacle to the production of the human resources required for the future development of German society and its economy.

The key role that state action can play in reining in the potential for inequality inherent in the neo-liberal mainstream becomes particularly clear when – as in the next section – the different strategies that can be adopted in order to adapt national models of capitalism to changing gender roles are considered. As can be demonstrated by a look at the contrasting features of public support for female labour market participation in general and at different approaches to cope with the need of an expansion of professional elder care services in particular, the challenge for modern capitalist economies goes far beyond a mere *return* of the state. The impacts of neo-liberalism on existing models of capitalism are intertwined with upcoming issues such as demographic changes. Hence the challenge to develop concepts of state responsibilities and action which at the

same time draw conclusions from the crisis of neo-liberalism and address more fundamental changes in European societies.

3. Institutional support for gender equality

As noted in the introduction, one major shortcoming of the social science debate on the various forms of (welfare) capitalism lies in the fact that the strands of literature on varieties of capitalism and on welfare regimes coexist rather than interact with each other. This is to be regretted particularly because the challenges to the current employment models arise not only out of the revolution in the functioning of international capitalism, that is the major trend towards liberalism, but also out of changes in social structures and norms, as reflected particularly in the changes in gender roles.

To date, however, the social pressure generated by the major trend towards increasing female participation rates has not been brought to bear in all countries with sufficient power to counteract state action. The conservative family models and welfare regimes of Southern Europe and some other EU countries, such as Austria and Germany (Dingeldey 2002), bear witness to this fact. This (literally counterproductive) contradiction is reflected in the evolution of women's labour market participation, which has increased further in all European countries, even in those that lag furthest behind in this respect (table 3). However, the picture becomes more differentiated as soon as part-time working is taken into account and the changes in full-time equivalents are considered. The most striking finding is that the employment rate in Austria has actually declined when expressed in terms of full-time equivalents and has increased only slightly in Germany, where the employment rate is now below the EU average. The same applies to the difference between the employment rates in full-time equivalents for women and those for men, which is described in the table as the employment gap between men and women. Here too, as with the gender pay gap, the discrepancy between men's and women's labour market situations is greater in Germany than on average within the EU.

Table 3: Women's employment rates (as % of female population aged between 15 and 64 and in full-time equivalents), 2006

	Employment rate*	Employment rate in full-time equivalents	Change compared with 1995**	Employment gap between men and women 2006***
Finland	67.3	62.9	+9.1	- 6.6
Denmark	73.4	62.5	+5.2	- 13.6
Sweden	70.7	61.0	+2.5	- 11.4
Czech Republic	56.8	55.3	-0.4	- 18.2
UK	65.8	51.7	+4.7	- 21.3
France	57.7	50.7	+4.5	- 16.0
Hungary	51.1	50.2	+5.7	- 7.0
Austria	63.5	49.9	-3.5	- 22.7
EU-27	57.1	48.8	k.A.	- 20.6
EU-15	58.4	48.2	+5.9	- 22.6
Spain	53.2	46.8	+17.9	- 27.8
Germany	61.5	46.5	+0.4	- 22.9
Poland	48.2	46.0	k.A.	- 14.0
Netherlands	67.7	42.9	+9.1	- 29.4
Italy	46.3	41.4	7.6	- 28.5

* Women in employment relative to total number of women aged 15-64

** Employment rate in full-time equivalents in 2006 compared with the employment rate in full-time equivalents in 1995 in percentage points; comparison year for Hungary is 1996, for Czech Republic 1998

** Difference between the employment rate in full-time equivalents for women and the employment rate in full-time equivalents for men in percentage points.

Source: European Commission 2007; own calculations

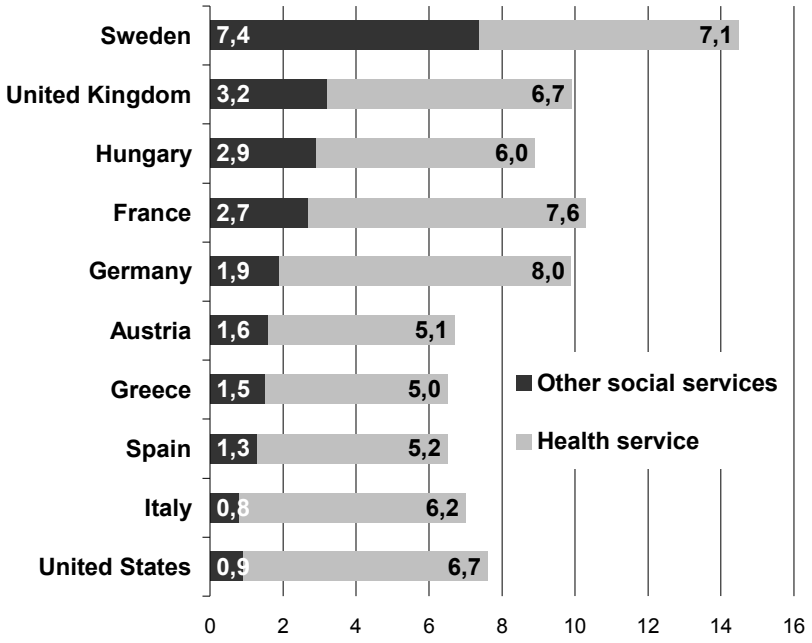
Of course the pace and structure of the increase in women's labour market participation are not determined solely by the supply of labour, but are also influenced by the demand side of the labour market. In this regard, Esping-Andersen (2002: 69) speaks of a 'double job multiplier effect'. Women's earnings increase household incomes, to which in Northern Europe they now contribute almost 50%. At the same time, the trend towards more egalitarian employment structures increases the demand for external services (roughly

calculated, 100 jobs held by women create a further 15 service jobs). Social and socially-oriented personal services are of particular importance in this regard. There is a strong correlation between the female participation rate in full-time equivalents and the numbers of hours' work carried out in social and socially-oriented services per head of population (Lehndorff 2006).

It is at this point that the welfare state comes into play, since a significant share of these services is provided by the public sector or at least is funded by the public purse. This is also reflected in public expenditure on social services as a share of GDP. The lion's share of public expenditure on social services is still accounted for by healthcare. However, figure 2 also shows 'other' social services, which among other things include public expenditure on childcare and care of the elderly. In this regard, there is a dramatic gulf between countries and their different welfare states. As expected, and in line with typologies of welfare state regimes, the Northern and Southern European countries constitute a contrasting pair. What is striking, however, is the scale of the differences. In Sweden, the volume of hours worked per capita in social services is two to three times greater than in Italy and the share of state expenditure on social services (excluding health and education) in GDP is nine times that in Italy. On the other hand, the continental welfare state regimes offer a less homogeneous picture. Here it is France and Hungary that particularly catch the eye; their welfare states – albeit against a background of very different traditions – have for decades been used to support family policy with the aid of considerable investment in childcare facilities. Germany's backwardness in this regard is also striking, however. The share of public expenditure on 'other' social services in total GDP is almost a third lower in Germany than in France and no less than three quarters lower than in Sweden.

Once again, it is the UK's profile in these figures that is most surprising. It is not only the Sweden's social-democratic regime but also the UK's liberal regime that seem better able to accommodate the fundamental social trend towards increasing female labour market participation than the conservative welfare state regime.

Figure 2: Public expenditure on social services as % of GDP in selected OECD countries, 2003



Source: OECD (2007b: 20)

However, this similarity is achieved in very different ways. Besides the availability of care for young children, the most significant indicator of the modernity of European social models in terms of gender policy is probably the elder care regime put in place in response to the interlinked challenges of increasing female labour market participation and ageing societies.

3.1 Care of the elderly

The elder care regimes that are currently emerging in various European countries can be differentiated from each other by the extent to which and the ways in which a market for care services is being created and how that market is being structured (Simonazzi 2009). As summarised schematically in figure 3, such markets may be either formal or informal in character, that is they may be

based primarily on wage work or on unpaid family work. In between these two extremes there are hybrid forms, such as those that are being developed in Germany and Austria. In all three types, but most likely in the two last-named ones, the use of low-paid immigrant workers, whether they be illegal or operating in the informal economy, may play an important role.

Figure 3: Typology of elder care markets

Elder care markets / Welfare state regimes	Primarily formal	Primarily informal (family + informal labour market)	Hybrid (family + primarily formal)
Liberal	UK: provision of services; >50% private providers		
Nordic	SE: provision of services, mainly public providers		
Continental	FR: earmarked cash benefits		DE, AT: choice between payment of cash benefits, non-earmarked cash benefits and cash benefits for market services
Southern European		IT, EL: non-earmarked cash benefits	ES: changeover to earmarked cash benefits

Source: Simonazzi (2009); own representation

As the summary shows, a formal care market is most easily established on the basis of entitlement to care services (in this respect, Sweden and the UK are similar in their basic approaches). The earmarked apportionment of funds, as happens in France, has a similar effect. As soon as the funds allocated are not earmarked for a particular purpose, as is the case in Italy or Greece, then the door is opened to the creation of an informal care 'market' based on low-paid immigrant or family labour. The care regime in Spain, as well as the Germany system that has been established on the basis of long-term care insurance, are hybrid forms (cf. Kümmerling's contribution to the present volume).

The elder care regimes reveal particularly clearly how European welfare state and employment models are reacting to the interlinked challenges of increasing female labour market participation and ageing societies (figure 4).

Figure 4: Change in gender roles: the labour market-welfare state regime nexus

Types of state reactions to changes in gender roles	Example countries	Problems
Containment of rise in female labour market participation through conservative incentive structure; precarisation through dual labour market structures	IT, EL	Informal sector, social division, erosion of tax base
Modernisation through strengthening of social services by 'market state' and active labour market policy	UK	Social inequality among women as a result of pressure on employment conditions offered by private providers, but minimal anti-poverty measures
Modernisation through strategy of social investment	SE	High tax rate as political price
Slowing of rise in female labour market participation and diversion into dead-ends as a result of competing incentive structures	DE	Distorted modernisation, social inequality among women, fiscal burdens

Once again, it is the non-identical twins, Sweden and the UK, that first catch the eye. They are similar in their strategy of creating a formal services and labour market for elder care. However, they differ radically from each other in the prioritising of public or private provision of care services. However open Swedish policy has shown itself to be in respect of the privatisation of various services, elder care services (together with childcare and education) have to date remained largely in the public sector, and primarily in the hands of local authorities (Heintze 2009; Veggeland 2007).

The British way, on the other hand, combines a relatively high level of expenditure on social services with extensive outsourcing and privatisation. In the British 'market state approach' (Rubery et al. 2009), the state does

indeed invest considerably more in social services than the conservative German welfare state; increasingly, however, it is giving the money to a weakly regulated private sector. Even if the tender guidelines are intended to obtain not simply the lowest price but rather the 'best value', this cannot by itself compensate for the weakness of the collective bargaining arrangements in these areas. As a result, the 'market state' helps to create a situation in which the expansion of social services goes hand in hand with low labour standards and social inequality, principally among women.

So long as pronounced social inequality in incomes and labour standards is socially accepted or at least tolerated, the risks of this strategy lie primarily in the increasing potential for poverty, and particularly in the future threat of poverty in old age, which has already become an important social policy theme in the UK, principally because of the importance of private and company pension schemes and widespread reliance on property as a means of funding retirement. The social costs of the conservative welfare state regime, however, are already becoming clear today (and in Germany at least they are even beginning to dawn on important social actors). Since women's economic activity is increasing even without support from social services, much skilled labour capacity is being left idle through part-time working and so-called mini-jobs (Germany) or being redirected into areas of precarious and informal employment (Italy). Both variants reinforce the gender hierarchy in incomes and have negative effects on the tax base and in the longer term on pension entitlements, which in turn impacts negatively on social care budgets.

3.2 Parallels and contrasts

This necessarily abbreviated investigation of the link between welfare state and labour market regulation based on the example of care of the elderly draws attention to an important aspect of the interaction between architectures and actors within national employment models. A 'strong' state can in future only be strong if it can build on strong self-organisation capabilities within society. Consideration of the national patterns of state action in response to the change in gender roles makes this abundantly clear. The development and utilisation of the immense possibilities of state action depend to a

large extent on the exertion of social pressure on the state actors. Where such pressure is weak, policy will tend to maintain an incentive structure that runs counter to the change in gender roles. As a result, various resources available to society will lie fallow. On the one hand, labour capacities are taken out of service or devalued, or even channelled into the informal sector. At the same time, the welfare state's tax base is reduced, so that the potential of the 'double job multiplier effect' of social investment cannot be fully exploited. And moreover, the birth rate declines, with the well-known long-term consequences for the distributive conflicts around the financing of social security systems. If the social pressure is too weak to force the political actors away from this conservation policy, this also reduces the possibilities for action to counter the potential for disintegration that is inherent in the liberalisation process, since that process encourages the development of labour markets with rapidly expanding precarious or even informal segments. It also becomes more difficult to stabilise or revitalise labour market regulation based on collective agreements.

On the other hand, both the liberal British and the social-democratic Swedish welfare state regimes are geared to supporting the change in gender roles, albeit in very different ways and with contrasting social effects.

In the UK, the change in patterns of social behaviour and expectations has increasingly had an impact on state action. However, with the adoption of the 'market state' strategy, a course was set that is consistent with and further develops the fundamental liberal orientation of the British model. As the provision of social services has expanded, bad working and employment conditions have been largely tolerated ('job quantity' has taken priority over 'job quality'); the market state has indeed invested considerable amounts of money, but at the same time many of the new activities have been subjected to private-sector competitive conditions. As a result, social polarisation had been increasing, particularly among women, and the employment effect in full-time equivalents is considerably lower than in Sweden (and only slightly higher than in France, where great importance has traditionally been attached to public investment in services). Since the trade unions and collective bargaining arrangements are weak in the private sector, there is little to stand in the way of these developments.

In Sweden, on the other hand, any slipping of employment standards is opposed not only by the structure of welfare state investment (with priority being given to the public sector in core activities) but also by the strength of the trade unions and collective bargaining arrangements in both the public and private sectors. However, a different price – a political one – has to be paid, since the relative equality is associated with high levels of taxation and social security contributions. This takes away a considerable share of national income from capital's accumulation process, leaving open the question of what economic and political consequences this has (Desai 2002: 255). So long as this restriction of the opportunities for capital valorisation can rely on a broad base of political support within society and the remaining opportunities for capital valorisation within the national framework are profitable, then this obviously does not create any problems for the country's economic development. However, this model is diametrically opposed to powerful economic interests, as well as to the dominant economic doctrines. This is why there will be repeated attempts – and this is confirmed by the Swedish government's policy since the last general election – to restrict the political base of support for this arrangement in society.

4. Conclusion: beyond blind trust in the market

If, in our analysis of the effects of economic liberalisation, the main focus of attention was on the political possibilities for developing measures to counter the potential for social inequality, the centre of attention in our examination of reactions to changing gender roles was the political possibilities for strengthening the labour capacity available to society and thereby develop a further counterweight to social polarisation. Against this background, the influence that can be exerted by a strong public sector, particularly in the area of social services, is underlined by the example of Sweden.

In a number of European countries, but particularly in Germany, the adjustments to the process of economic liberalisation have been considerably more far-reaching than those to the change in gender roles. This significantly exacerbated the tensions in most European employment models in the years prior to the current crisis. Neglecting the new potential for the development

of societal resources released by the change in gender roles has further exacerbated the disintegration problems caused by economic liberalisation. Comparison with other European countries shows that Germany is one of those in which this toxic mix is at its most potent (and it can be no comfort to Germans that it is considerably more potent in Italy and Greece, where it has triggered real negative spirals, leading to fragmentation and demoralisation in the labour market).

Thus warnings from the neo-liberal side against the resurgence of 'unquestioning faith in the state' are simply evading the real issue, for two reasons. Firstly, it was policies based on blind faith in the market that were largely responsible for creating the current crisis. Secondly, it is structural conservatism cultivated by the state that is failing to make space for the newly released potential for social development and renewal. Thus, if the currently much debated 'return of the state' is to be anything more than a correction of 'excesses in the financial markets', the democratic state will be called upon to act in several capacities: as a regulating and redistributing institution, and also as an investor and service provider acting in the interests of society as a whole.

A 'return' of this kind would in fact be something completely new for most European countries. In Germany, for example, but not only in Germany, it would mean embracing a fundamentally different growth model, in which, with the aid of state intervention, economic growth was organised in such a way as to take greater account of environmental and social considerations. New product market regulations could help to make growth 'greener', while new labour market regulations could make society more equal and hence boost domestic demand. Not least, however, the structure of social value creation could be shaped by the effective exertion of state influence on the extent and quality of social services. In education, health, childcare and care of the elderly, there is a need for both investment and expenditure on current operations, both in noticeably different orders of magnitude than has been the case to date.

Whether there will ever be a 'return' of the state in this sense has up to now been a completely open question. It is to be feared that any such change of direction will be blocked by the all-stifling debate on public indebtedness,

which is likely to increase as a consequence of the measures taken to combat the crisis. It will be very difficult, in the face of the bleak predictions of a state doomed to inaction because of excessive indebtedness, to gain acceptance for the alternative scenario of a new, state-promoted growth model. However, the example of the Northern European countries shows that this alternative strategy can even help to reduce state indebtedness. However, this is a path that cannot be taken unless there is a political will to resume the distributive conflict. This battle would revolve around the increase in the share of taxation and social security contributions in GDP that would result from a return to a significantly higher top rate of taxation. Disputes about the quality of life in society will be ignited by the share of GDP taken by the state. This does not in any way imply a lack of regard for the democratic self-organisation of social actors. On the contrary, in fact: it is precisely here that most of those mourning the political failures of the recent past are to be found. And the weaker the pressure exerted by organised interest groups in society, particularly the trade unions, is, the more half-hearted the 'return' of the state will be and the more limited its effects. What is at stake here is not blind faith in the state but rather lasting renunciation of the state that has blind faith in the market.

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