

In the reform of the welfare state, countries' experiences depend not only on their economics, institutions, and policy responses but also on politics, that is, on governments' ability to gain agreement for reform through discourse, understood as both a set of ideas and an interactive process. This article seeks to show not only how discourse matters but also when it matters, that is, when it acts as a causal influence on welfare reform, altering perceptions of interests and overcoming institutional obstacles to change. It demonstrates this through the examination of three matched sets of cases in which the presence of a coherent discourse contributed to the success of welfare state reform and its absence contributed to its failure. The matched pairs are Britain and New Zealand, the Netherlands and Germany, and Italy and France.

## DOES DISCOURSE MATTER IN THE POLITICS OF WELFARE STATE ADJUSTMENT?<sup>1</sup>

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**S**ince the mid-1970s, first with the two oil shocks and then with the increasing competition in product and capital markets, the advanced welfare state has come under growing economic adjustment pressures. Faced with rising unemployment, growing welfare costs related to the aging of the population as well as the restructuring of the economy and decreasing ability to fund their programs, countries' traditional welfare state commitments to full employment, a given level of social security, and/or equality in benefits and services have come increasingly under threat. Economic pressures have not been the only threat to the traditional welfare state, however, because endogenous social changes reflected in the new "postindustrial" values related to changing lifestyles, attitudes toward work, and the role of women

1. The project on which this article is based covers the adjustment of national employment and social-policy systems to changes in the international economic environment in the period from the early 1970s to the late 1990s. Its main findings are contained in a set of coordinated country and special studies as well as comparative analyses of the policy experiences of 12 advanced welfare states (Scharpf & Schmidt, 2000).

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in particular have also had a significant impact. Moreover, the neoliberal ideas that had served as an impetus to the transformation of the structure of the economy in many advanced industrialized countries have played an additional role in the promotion of change in the structures of welfare and work.

Countries' responses to such pressures have varied greatly, depending not only on such things as their relative economic vulnerability, the relative capacity of their institutional structures to promote successful strategies for reform, or the relative success of the repertoire of policies they mustered in response. Responses also depended on the dynamics of political interaction, which I define here as the ability of governments to gain agreement for reform from relevant policy actors and the general public.

Adjustment, in other words, is not only a matter of economics, institutions, or policies. It is also a question of politics. But it is not politics as usual, according to which one assumes that in the politics of retrenchment, those who lose will be opposed (see Pierson 1996, 1998) and that under the normal rules of democratic politics, policies that go against the interests of large groups, let alone a majority of the electorate, are bound to fail. Such rationalist assumptions cannot explain the fact that in the reform of the welfare state, policy initiatives that went against the narrow self-interest of electoral majorities, challenging deeply held values and reversing long-standing practices, have succeeded more often than one would expect. In some such cases, government capacity to impose reform can be invoked in explanation. But this was certainly not true of all cases. Moreover, even where it could explain what happened in the short term, it cannot explain how reform survived (or not) the test of time given the potential for electoral and other sanctions if the public remained opposed. The issue to explain then is how the public changed (or not) its perceptions of self-interest and accepted new institutional practices that may have challenged commonly held values involving the welfare state.

In what follows, I argue that discourse, understood as whatever policy actors say to one another and to the public more generally in their efforts to construct and legitimate their policy programs, is the missing element in the explanation of policy change in the welfare state. As both a set of ideas about the necessity and appropriateness of reform and an interactive process of policy construction and communication, discourse can create an interactive consensus for change (see Schmidt, 2000a, 2000b, 2001a). But there is nothing inevitable about discourse. Often, it may be little more than an accompaniment to policy change, as a reflection of the interests of key policy actors and an expression of institutional path dependencies. Just as often, however, it can exert a causal influence on policy change, serving to overcome entrenched interests and institutional obstacles to change by altering percep-

tions of interest and showing the way to new institutional paths. The question is when has a legitimating discourse (or the lack thereof) contributed to the success (or failure) of welfare state reform?

To investigate the question of when discourse matters, therefore, I will provide accounts of matched sets of cases of welfare state adjustment, controlling for as many variables as possible (for a comparable study of political economic adjustment in France and Britain, see Schmidt, 2001b; for more detail on these and other cases of welfare state adjustment, see Schmidt, 2000b). I seek to show its influence through both the vehicles of discourse—that is, through politicians' speeches, party platforms, government pronouncements, opposition positions, public debates, and media commentary—and the evidence of its effect, through such things as electoral results, opinion surveys, and experts' commentaries. By pairing countries in terms of economic conditions, interest configurations, institutions, and value preferences as well as by considering the same country at different times, with discourse the main differentiating factor, I expect to show that discourse does matter in the reform of the welfare state.

The first matched pair of countries consists of Britain and New Zealand, which were both characterized by early economic crises, divided constituency interests, Westminster types of single-actor systems, and Beveridgian welfare states based on universalistic values that were challenged by the rising influence of neoliberal ideas. The second match encompasses the Netherlands and Germany, characterized by similarly cohesive constituency interests, corporatist kinds of multiactor systems, and Bismarckian welfare states focused on the family that were challenged by the rise of postindustrial as much as neoliberal values. The final pair of countries is Italy and France, which represents not so much a match, given differences in institutions, the former with a fragmented multiactor system and the latter with a more cohesive single-actor system, as countries in which the differential success of welfare reform can be attributed to the development of new legitimating discourses. In all three pairs of countries, the first country listed was more successful in producing a coherent discourse along with effective and/or lasting reform than the second.

### WHEN DOES DISCOURSE MATTER?

As a set of ideas, discourse serves to demonstrate that welfare reform is not only necessary, by giving good reasons for new policy initiatives based on sound empirical arguments, but also appropriate, through the appeal to values. Such an appeal can be to the defense of traditional welfare state values,

such as social solidarity, which has been most prevalent in the Continental, Christian-democratic welfare state, or equality, which continues to predominate in the Scandinavian social-democratic welfare states. It can be to competing values that also have broad moral support, such as individual responsibility, market solutions to the provision of welfare, and differentiation in income to reflect the individual's contribution to society, values that have been most associated with the Anglo-Saxon liberal welfare state but are also part and parcel of the neoliberal ideas that have gained increasing currency in recent years. Or it can be to higher values of the collective good, such as sacrifices to save the nation from economic disaster or to maintain national pride (see Schmidt, 2000b).

Such normative arguments need to be based on sound cognitive arguments, of course, because one cannot, for example, call for sacrifices unless one makes a convincing case for their necessity (as in the Netherlands in the 1980s because of economic crisis or Italy in the 1990s to save national pride by acceding to membership in the European Monetary Union [EMU]). By the same token, however, for cognitive arguments to succeed, they generally need to be linked to persuasive normative ones because whatever the good economic sense of a reform, it may fail if it is seen as clashing with national values, as when arguments for neoliberal reform seem to undermine nationally held values of social solidarity (as in France prior to the late 1990s and Germany still today). By contrast, where the discourse has contained not only sound economic reasons but also convincing normative arguments, for example, that neoliberal reform reinforces values of individualism and entrepreneurialism (as in Britain under Thatcher and Blair) or that changes in the welfare state that make for a more competitive economy would also promote a more equitable distribution of public goods (as in Italy since 1992, France since 1997, or the Netherlands since the mid-1990s), the discourse has contributed to the success of reform efforts.

Discourses differ across countries, moreover, not only in the ideas and values to which they may appeal but also in how they are constructed and where they are focused. This is because different institutional contexts tend to frame the discursive process, determining who is involved in the initial elaboration of the policy program and discourse and toward whom the discourse is directed (see Schmidt, 2000a). Although all countries have both a "coordinative discourse," encompassing the common language and framework through which key policy groups come to agreement in the construction of a policy program, and a "communicative discourse" that serves as the means through which key policy actors seek to persuade the general public (through discussion and deliberation) that the policies developed at the coordinative phase are necessary (through cognitive arguments) and appro-

priate (through normative arguments), the balance between the coordinative and communicative discourses differs among countries.

In some countries, the elaboration of the program is by a restricted, government-centered policy elite, and the discourse is primarily directed toward the general public to communicate the government's policy decisions. This emphasis on the communicative discourse is more prevalent in single-actor systems where power is concentrated in the executive, such as Britain, New Zealand (until the mid-1990s), and France, where governments that have the capacity to impose reform seek to gain acceptance for it from the general public through legitimating discourse (for more detail on France and Britain, see Schmidt, 2001b). Here, the debate and deliberation over major policy initiatives tend to go on in the wider public sphere (if at all), as policies formulated unilaterally by a small elite face public scrutiny and where the discursive process is therefore often adversarial, as the public, if not convinced of the necessity and appropriateness of the policies, can impose sanctions through periodic elections and protest. In such single-actor systems with communicative discourses, in consequence, the causal influence is most likely to be ascertainable subsequent to welfare reform in the responses of the general public over time.

In other countries, the elaboration of the policy program is the product of a much wider cross section of policy-related elites, whereas the discourse tends mainly to be directed toward those very policy elites involved in the original elaboration as a way of coordinating the policy construction. This emphasis on the coordinative discourse is much more prevalent in multiactor systems in which governmental power and/or societal representation are more dispersed, such as Germany, the Netherlands, and Italy, and in which the government generally lacks the capacity to impose reform (for more detail on these and other multiactor systems, see Schmidt, 2000b). Here, debate and deliberation are largely confined to the coordinative discourse, as negotiating partners seek to achieve a consensus on a policy program that they will then communicate to their own constituencies—leaving it to government to inform the larger public in what is for the most part a much thinner communicative discourse, at least as compared with that of single-actor systems where the coordinate discourse is thinner. In such multiactor systems, it is mainly during election periods or when the coordinative discourse breaks down that the government seeks to develop a more elaborate communicative discourse in efforts to reframe the coordinate discourse so as to facilitate the building of agreement by the policy elites involved and/or to legitimate initiatives taken without the agreement of the wider groups of policy elites. In such multiactor systems then, sanctions come generally before the fact, in the lack of agreement among the wide range of policy actors involved in the

coordinative discourse, rather than after the fact, as in single-actor systems in which elections and protest underline the lack of public acceptance of a policy program. In multiactor systems in which the coordinative discourse is most prevalent, in consequence, the causal influence of discourse is more likely to be ascertainable at the time of welfare reform—in whether it is actually agreed to or not.

By focusing on discourse, then, I suggest that we can gain insights into the reasons for success or failure of policy reform that go beyond explanations in terms of interests and/or institutions alone. Although I make no claims to being able to predict which particular discourses will prove influential or to which particular values an influential discourse will appeal, I do have hypotheses about when governments' discourses are more or less likely to act as a significant influence on policy reform, given certain kinds of institutional contexts and given a particular range of values to confront in their efforts to reform the welfare state. I also suggest that a government's discourse can best be shown to exert a separable, causal influence—enabling change as opposed to simply accompanying it—when it is used to justify policies that go against the immediate or perceived interests of its own constituency. In fact, one of the few tools a government has to gain or retain public and/or policy elite support when potentially faced with an opposition mobilized in protest and appealing to majority interest is to appeal to values, whether values of national solidarity, the public good, or more specifically to alternative societal values not being furthered by the current policies.

In what follows, in short, I seek to demonstrate that discourse can be more than just “cheap talk,” more than a mere accompaniment to policies that result from strategic bargaining among interests, and transformative of values and interests rather than merely reflective of them. In single-actor Britain but not New Zealand, in multiactor Netherlands but not Germany, and in multiactor Italy under Dini but not Berlusconi and in single-actor France under Jospin but not Juppé, discourse has in fact been sufficiently legitimating to act as a causal influence on the reform of welfare and work.

### **BRITAIN AND NEW ZEALAND**

For Britain and New Zealand, major external economic pressures appeared earlier than for most other advanced welfare states and only intensified in the 1970s. Both shared the traditional characteristics of the liberal welfare state in which social assistance was kept at a minimum to ensure that it did not take the place of work but in which, given the modest level of welfare, the state had felt an obligation to ensure full employment—in Britain through

a balance of macroeconomic policies and intermittent interventionism in industrial relations and in New Zealand through import substitution industrialization and labor arbitration courts that largely determined wages and work conditions (see Rhodes, 2000; Schwartz, 2000). In both countries, in addition, the state had great capacity to impose reform given first-past-the-post majoritarian electoral systems and Westminster models in which the only major constraints on the executive were periodic elections. In consequence, reform initiatives were generally the product of a restricted elite that would engage in a communicative discourse to legitimate its policy decisions to the general public, with an eye to future elections.

Thus the policy changes in both countries in response to economic crisis could be very radical and were indeed very radically neoliberal as compared with any other welfare states, although even more so for New Zealand than for Britain. But whereas such changes were largely accepted by the general public in Britain as a result of the persuasiveness of the communicative discourse, they were not in New Zealand, which lacked much discourse at all.

#### **BRITAIN**

There can be no doubt that Thatcher's success in instituting neoliberal reform beginning in 1979 owes a great deal to institutional capacities afforded her by the British single-actor system, to economic policies that eliminated government dependence on union cooperation, and to fortuitous political circumstances (including a divided opposition and the Falklands war) that insulated her electorally (see Scharpf, 2000). However, the fact that such reform took hold, lasting despite subsequent changes in governments, owes much to the highly effective communicative discourse through which Thatcher sought to persuade the general public not only of the superior logic of market capitalism—which she contrasted both with the Labor Party's "socialism" and "corporatism" and the Tory "paternalism" of her own party—but also of its appropriateness. Thus Thatcher legitimated her radical neoliberal policy program in terms of the country's long-standing adherence to a limited state and liberal economic principles, with their basis in deep-seated British values (Marquand, 1988). She defended the people's right "to be unequal" with claims that the pursuit of equality weakened incentives, penalized success, was costly and ineffective, and created a dependency culture with a nanny state (Evans & Taylor, 1996; Leydier, 1998; Wilding, 1994); talked of "rolling back the frontiers of the Welfare State" and promoting an "enterprise culture"; and appealed to Victorian values as she insisted on distinguishing between the "deserving" and the "undeserving" poor (Thatcher, 1993).

But whereas Thatcher's discourse was largely successful in helping to gain acceptance for radical changes in the structure of the economy and work through anti-inflation austerity budgets, deregulating and privatizing industry, and shattering the unions, it did less to help her overcome public resistance to changes in the structure of welfare. In the end, despite her vow to "end the dependency culture," Thatcher actually did not cut overall social welfare expenditures, the basic pension (although she did delink it from earnings), or the National Health Service—where public opposition to retrenchment was greatest, given that it was an area in which the notion of rights was universalistic and the middle classes benefited. However, she did cut social assistance programs and housing allowances, an area in which she could distinguish between the "worthy poor" and the "feckless and the idle" (e.g., the unemployed, single mothers, and youth), and she reinforced individual responsibility and "capitalist" values by promoting individual recourse to private pensions beyond the basic pension and instituting competition in the National Health Service and in tertiary education.

The question then is to what extent Thatcher succeeded in promoting neoliberal values with her discourse as she changed policies. Public opinion surveys suggest that Thatcher did manage to move the British toward more capitalist values when it came to acceptance of inequalities, individual responsibility, materialism, and entrepreneurialism, all of which followed from her reforms of the structure of the economy and work, but that she did not by any means eradicate "socialist" values (see Hetzner, 1999; Schmidt, 2000b). Further confirmation for the success of Thatcher's discourse, at least as regards the structure of the economy and work, can be found in the election results and in the rhetoric of the politicians whose political lives and livelihoods depended on guessing right and thereby winning elections. It is telling that over a period of 18 years, the British reelected first Thatcher and then Major, who continued the Thatcherite policy program and discourse, albeit with a somewhat less confrontational style, and that the only way the Labor Party was able to return to power was in adopting much of the Thatcherite neoliberal policy program and discourse.

One should not forget that during Thatcher's first mandate, the Labor Party had espoused the exact opposite set of values from those of Thatcher, with its 1983 election campaign promising socialism in one country (and opposing further European integration because of this) and pledging more nationalization and a more generous and egalitarian welfare state. Labor's repeated election defeats convinced it that it could not win with such policies, and the mid-1980s to the mid-1990s represented the long march back to the center. But whereas Labor slowly but surely seemed to have undergone a



complete neoliberal conversion with regard to the structure of work and the economy, the conversion was more nuanced with regard to welfare. At the same time that Labor was increasingly espousing neoliberal social values of opportunity, responsibility, individual merit, and the “challenge of the Market” as the best mechanism to allocate most goods and services (Leydier, 1998), it was also continuing to defend traditional social policy. In its communicative discourse, which represented very much a renewal of the Thatcherite discourse, “New Labor” sought to convince the public that it had taken a third way between the Left and the Right by embracing the “risk society” resulting from globalization and by providing a new politics of the radical center, with an active, inclusive civil society and a reconstructed state rather than one that has been either shrunk or expanded (Featherstone, 1999).

Given Labor’s long-standing defense of social welfare, it could seem all the more ironic that Blair has essentially completed the Thatcher “revolution” in the social arena, having done what neither Thatcher nor Major dared by introducing workfare for social assistance recipients and tuition fees for students in tertiary education at the same time that he has continued means testing in social assistance and gone further with the introduction of the market into pension systems. But for New Labor, all of this is perfectly consistent with a discourse that emphasizes reversing “social exclusion” and fostering social mobility to “promote opportunity instead of dependence” through education and workfare as opposed to the Conservatives’ mainly negative action with regard to the “dependency culture” focused on limiting benefits and services. What is more, New Labor has also been somewhat more redistributive in its social policies with regard to the very poor by raising the level of social assistance and by setting a minimum wage, even if these redistributive aspects of Blair’s welfare policies have seemingly been by stealth, having been given little attention in the discourse (see Rhodes, 2000).

Thus in Britain, Thatcher’s communicative discourse was an important element in gaining British acceptance of neoliberal change in the structure of the economy and work, so much so that Blair remained true to the basic policy goals and discourse and even furthered those goals with regard to the structure of welfare. In New Zealand, something very different happened, in part because of the lack of a sufficiently legitimating communicative discourse. The public showed its ultimate displeasure with even more radical neoliberal changes than in Britain through a referendum that dismantled the very institutional arrangements that made radical welfare changes possible in the first place.

## NEW ZEALAND

In New Zealand, the reforms in response to the economic crises of the 1970s were much more radical and far-reaching than in Britain. Moreover, whereas in Britain, the changes were facilitated by an elaborate communicative discourse, this was not the case in New Zealand, where the political parties never made clear what their plans were going to be in their election campaigns, instituted radical reforms when in power without much consultation or communication, and did this mostly against the wishes of large parts of the population. Much of the explanation for the way change came about can be attributed to the progressive dealignment of the major parties' electorates and the rise of ideologically driven minority wings of those parties that were able to exploit the institutional framework to capture power and impose their policies with impunity (Nagel, 1998). The result was tremendous public discontent, which culminated in the referendum replacing the majoritarian electoral system that had made it possible for governments to impose such radical reform in the first place.

When the Labor Party came to power in 1984, it had left its plans with regard to economic policy rather vague, although campaign references to ensuring an "active role for government" and instituting "prices and incomes policy" and an "investment strategy" gave the impression that a new Labor government would be as interventionist as its predecessor (Mulgan, 1990; Nagel, 1998). Instead, radical neoliberal reforms were implemented single-mindedly and extremely quickly in the name of a revival of the values of classical liberalism and *laissez-faire* (Easton, 1997). Similarly, moreover, when the Labor Party was reelected in 1987, this time with an even less clear set of electoral promises (a full manifesto was published only 2 weeks after the election), it then proceeded with even more radically neoliberal policies (Mulgan, 1990; Nagel, 1998).

The radical nature of Labor's turn to neoliberalism can be explained only by the seizure of control over the Labor policy agenda by a small coterie in the Labor Party led by Roger Douglas, the finance minister, who took advantage of Labor rules of cabinet solidarity and of party discipline in Parliamentary voting to impose his views (Boston, 1990; Nagel, 1998; Schwartz, 1994). The lack of communicative discourse can be explained by the fact that unlike Prime Minister Thatcher, who wanted everyone to believe what she believed as she imposed reform, Finance Minister Douglas seemed to assume that everyone would come to believe what he believed once he had imposed reform (Quiggin, 1998). Only occasionally did Prime Minister David Lange step in to talk about the necessary sacrifices given the economic crisis. But

mostly, public attention was deflected from the economic issues by a governmental discourse focused on nuclear testing by the French in Muroroa and the blowup of the Greenpeace boat (which, one could say, was Lange's Falklands War).

Labor's appeal for most of its two terms in office was based on the fact that it managed to balance out its unpopular, radically liberal economic policy with much more popular social policies. Despite its introduction of competition in both the production system and the welfare system and its emphasis on market principles and user charges to promote individual responsibility and self-reliance, Labor retained a certain amount of "collectivism" with regard to both welfare and work by maintaining and even reinforcing the industrial relations system while expanding the welfare state (see Schwartz, 2000). With regard to the welfare state in particular, there was an effective communicative discourse in which Labor claimed to introduce competition into the formal welfare system to save it by making it more sustainable even as it increased spending on social assistance.

In 1990, the Labor Party lost to the National Party, largely because of a split in the Labor Party over neoliberal economic reform. But it was also because a large majority of voters considered that Labor had gone too fast or headed the wrong way (Vowles & Aimer, 1993). National, however, having won in part as a result of the misleading (at least to the average citizen) campaign promise of "creating a decent society" went even faster in the wrong direction, seeking to destroy rather than save or expand the welfare state by introducing even greater competition by drastically cutting social programs and services, restricting eligibility, and attacking even such seemingly accepted universalistic rights as health care through the introduction of rationing. Moreover, it radically decentralized wage bargaining, with the resulting collapse of unions. And it did all of this with even less attention to public opinion than Labor (Schwartz, 2000). Here, too, reform was the product of a narrow coordinative discourse among a restricted group in the National Party, and again there was almost no communicative discourse about the reforms.

Public discontent was increasingly apparent. Opinion polls showed a precipitous drop in confidence in politicians, whereas voter turnout also decreased significantly (Vowles & Aimer, 1993). The best evidence of public dissatisfaction, however, was the referendum initiative, supported by dissatisfied members of both major parties, that proposed to eliminate the majoritarian, first-past-the-post system in favor of a German-style, mixed-member proportional representation system (McRobie, 1993). In this way, it altered the very institutions that had allowed successive governments to reform without regard to public opinion—although ironically enough, the

new institutional set up made it much more difficult for any government to go back on the reforms that were the real object of protest.

The electoral reform ushered in something of a new era, making it difficult if not impossible for any coalition government to continue with radical reform, as evidenced by the much less radical policies of the National-led coalition between 1996 and 1999—or to go back in any significant way on the reforms already instituted—as is likely to be the case with the Labor government since 1999. The difference is that in this new system, all reforms have to be negotiated with a much wider range of policy elites, and thus a more elaborate coordinative discourse is necessary alongside the communicative, which as a result of the referendum experience politicians have learned is also of the essence.

### THE NETHERLANDS AND GERMANY

Unlike traditionally liberal Britain and New Zealand, which had residual welfare states, both the Netherlands and Germany had reasonably generous welfare states based on traditional Christian-democratic values in which welfare was centered on the family, benefits were differentiated by status and gender, and the core workforce of male breadwinners employed full-time until retirement were the main beneficiaries. For both countries, in consequence, the challenges to the traditional welfare state resulted not only from economic crisis, which came early in the Netherlands and only very late in Germany, but also from the postindustrial values represented by changing gender roles and patterns of work (see Schmidt, 2000b). In these multiactor countries, however, in contrast with single-actor Britain and New Zealand, the state had comparatively little capacity to impose reform in response to crisis, given proportional representation systems, coalition governments, and corporatist policy-making processes that brought the social partners and even the opposition (in the case of Germany) into decision making—although the Netherlands, with its unitary state, nevertheless had somewhat more capacity to impose than federal Germany.

As a result, reform initiatives in the Netherlands and Germany would ordinarily have to be the product of the wider group of policy elites engaged in a coordinative discourse that built agreement among themselves and, only in exceptional circumstances, the product of a communicative discourse by the government. As such, the main question is not how radical the reform but whether there would be any reform at all, given the difficulties of gaining agreement for reform from the wide range of interests relevant to policy con-

struction. For Germany, there has in fact been almost no reform, despite the crises beginning in the 1990s involving the structure of welfare and work. By contrast, the Netherlands has successfully reformed in response to crisis twice, in the early 1980s with the revival of a successful coordinative discourse among the social partners that served to reform the structure of work and in the early 1990s with the turn to a communicative discourse by government that served to reform the structure of welfare.

#### THE NETHERLANDS

In the 1970s, the Netherlands, which had once been touted as the ideal-typical "corporatist" country because of its highly cooperative labor-management relations and centralized concerted bargaining and had been seen as one of the more successful of consociational democracies because of its consensual political relations by large coalition governments in a highly "pillarized" society, seemed to be careening toward economic disaster and incapable of doing anything about it because of political deadlock. Beginning in the early 1980s and continuing in the early 1990s, however, the process of recovery began, the result of a social learning process in which the social partners became more willing on their own to negotiate the necessary adjustments in wages and work conditions and the government to institute welfare reforms, even in the face of major opposition (Visser & Hemerijck, 1997).

The arrival of the "no-nonsense" Ruud Lubbers coalition government of Christian Democrats and conservative Liberals in 1982 signaled the start of the process of change. First and foremost, the government's declaration that "it is there to govern," with or without the social partners' consent, helped precipitate the Wassenaar agreement, which ushered in a new era of "responsive corporatism" with social concertation and wage restraint (Visser & Hemerijck, 1997). With this responsive corporatism, moreover, came a coordinative discourse that continued through the 1990s, serving as the primary manner in which wage restraint was maintained, wage negotiations decentralized, and work conditions made more flexible. By contrast, in the welfare domain, the government engineered a "corporatist disengagement" by progressively diminishing social partners' powers and responsibilities over the administration of social programs on the grounds that the coordinative negotiation process had contributed to immobilism (Visser & Hemerijck, 1997).

Thus the Lubbers government took upon itself the responsibility for welfare reforms for which neither business nor labor were willing or able to gain agreement among their own membership, instituting alternative remedies

drawn from the example of the liberal welfare state. Although there were moderate cutbacks in welfare state funding in the 1980s, the truly radical liberalizing reforms that reorganized the welfare system, under governments that now included the Social Democrats, came in the early 1990s, and these were not popular.

The “tough medicine” that Prime Minister Lubbers, in a televised speech in 1989, claimed was necessary for such a “sick country,” where 1 million of its 7 million workers were out on disability insurance, did not go down well with either the unions, which organized the largest protest in the postwar period, or the general public, which saw the reforms as an attack on established rights. But the government coalition went ahead anyway, seeing the problem not only as financial but also as a crisis of governability that could not be allowed to continue (Visser & Hemerijck, 1997). The public was not convinced by the government’s communicative discourse, however, and voted its dissatisfaction in the 1994 elections, causing a “political earthquake” when the ruling coalition of Christian Democrats and Social Democrats went down to a resounding defeat. But this did not stop the subsequent Left-Liberal government under Prime Minister Wim Kok from continuing with the unpopular reforms.

In the Netherlands then, as in New Zealand, the public really had no alternative, with the coordinative discourse among government parties and experts (but absent the social partners) having succeeded in consolidating a coalition for reform (as it has typically also done in the past—see Rochon, 1999). The difference from New Zealand is that in the Netherlands, the presence of multiple parties in coalition governments meant that the liberalizing reforms were moderated by the necessary compromises between Right-leaning and Left-leaning parties and that in the Netherlands, the public has come to accept the new welfare state arrangements, as evidenced by the resounding electoral success of the Left-Liberal coalition in 1998. This has been not only because of the success of the policies in getting people back into gainful employment through Prime Minister Kok’s focus on “jobs, jobs, and even more jobs” or the fact that the Dutch social welfare system remains reasonably generous, despite all the cutbacks (Hemerijck, Visser, & Unger, 2000). It has also been because of the government’s communicative discourse, which made the normative argument that it had not forgotten about the concerns of social equity even as it pursued liberalizing efficiency through policies that attacked inefficient inequities in the system, such as paying generous disability pensions to vast numbers of able-bodied people; that sought to balance out the possible negative effects of wage restraint through compensatory, targeted tax breaks for low-wage workers (which also

ensured continued, comparatively low-wage differentials); that sought to avoid an unregulated race to the bottom through the upgrading of hourly wages and benefits of part-time and temporary workers; and that attempted to reduce gender inequalities (although it no way eliminated them) by enabling women to get out of the house through the availability of part-time work (Levy, 1999).

In the Netherlands, in short, discourse played an important role in reform, with both a successful communicative discourse in the late 1990s that served to legitimate government policies with regard to welfare and a successful coordinative discourse beginning in the early 1980s that served to establish agreement among the social partners for changes in the structure of work. In Germany in the 1990s, by contrast, no such discourse has been forthcoming and significant reform has yet to take place.

#### GERMANY

In Germany in the 1990s, with unification and intensifying pressures from global competition, it was already clear that major reforms to the structures of welfare and work were needed to sustain international competitiveness as well as the welfare state. But as of the late 1990s, meaningful reform had yet to be undertaken, stymied by the lack of a successful coordinative discourse among the social partners and the often contradictory communicative discourse of government and opposition in the frequent elections, whether the run ups to the federal elections or the successive Länd elections that generally brought the opposition into power in the Bundesrat or the upper house.

There were few challenges to the postwar policy program of the social market economy or to the discourse that served to legitimate it until the 1990s. Since the late 1950s, whatever the differences among the policy elites, they all shared a common set of understandings about the values and goals of the welfare state embedded in the social market economy as a market system that, although competitive, was accepted as politically instituted and socially regulated (see Streeck, 1997). Moreover, in the 1980s, when the other countries discussed above were engaging in liberalizing reforms, Germany did little. Not only did it not need to do much given its comparatively healthy economy, but also there was very little support for it from an electorate that was basically satisfied with the welfare state as it was, and there was very little consensus for reform from the various societal and government actors needed to agree to it (see Lehbruch, 1994; Schmidt, 2000b).

Moreover, the economic crisis that began with unification only seemed to reinforce redistributive values in the public (Schmidt, 2000b), while it also

served to reinvigorate, as least for a time, the postwar paradigm of the social market economy and its legitimating discourse. Unification extended the West German social market economy to the East, with the government legitimating this through a communicative discourse in which it sought to evoke the traditional values of social solidarity and economic liberalism contained in the initial, postwar concept of the social market economy. This communicative discourse, which was the construction of a restricted governmental elite, actually replaced the usual coordinative discourse, mainly because there was little chance of consensus among the key policy actors and little possibility of agreement between the opposition and the government given the intense electoral competition for new voters in the run up to the 1990 elections (Lehmbruch, 1994).

Subsequently, as unemployment continued to rise and privatization proved problematic, the government returned to more corporatist concertation and cooperation with the opposition. By the mid-1990s, however, the renewed consensus was threatened by business, which began to propound a neoliberal discourse focused on the challenges to German competitiveness from globalization, and by labor, which became increasingly resistant to cutting back wages or benefits. The conflict came to a head with the massive strikes related to the sick pay controversy that began in late 1996. Once resolved, however, management and labor returned to more cooperative, coordinative discussions. But whereas the social partners moved slowly forward, government became increasingly paralyzed in the run up to the September 1998 elections, unable to reach compromise with the opposition on its tax and welfare reform initiatives.

Here, politics was the main obstacle to change. The political rivalry between government and opposition (in control of the upper house) in the run up to the 1998 election blocked any compromises on welfare state cuts and tax reform. The campaign for election, in which the conflicting communicative discourses of government and opposition were of necessity more elaborate, worked at cross purposes with the coordinative discussions behind closed doors, which were particularly noncooperative as each side accused the other in their election campaigns of responsibility for the lack of reform. The election of Schröder, however, did not do much to break the deadlock. Not only were the social partners unsuccessful in agreeing on a wide range of liberalizing reforms in the context of the Alliance for Jobs talks, but also the government itself had difficulty instituting reforms either in tax or welfare policy, stymied in consequence of the successive elections in the Länder, which quickly reversed the Social Democratic party's majority in the Bundesrat.



In addition, the government confronted difficulties in finding its own voice. First, in the spring of 1999, it seemed that the government was speaking with two different voices, that of Chancellor Schröder, who appealed to business with his espousal of market liberalization, and that of Minister of Finance and party leader Oskar LaFontaine, who appealed to the Left of the party and the unions and appeared to reject market liberalization with his espousal of neo-Keynesianism. Only once LaFontaine resigned did Schröder become the sole voice of government, but this did not ensure his effectiveness. During the summer, the chancellor briefly adopted Blair's "third way" in an ill-conceived and ill-received coauthored policy paper on the need to promote "a go-ahead mentality and a new entrepreneurial spirit at all levels of society" (*Financial Times*, June 8, 1999). By October 1999, however, in the face of continued electoral defeat and massive protests by members of his own party and trade unionists against his proposed budget cuts, Schröder moved on to a discourse that had much more in common with that of the French socialists—with an appeal to the values of social justice. Only in December, once Schröder made clear that he was intent on protecting the traditional social market economy even as he sought to liberalize it, by speaking out against a foreign hostile takeover attempt of one firm (of Mannesmann by Vodafone) and intervening to avoid bankruptcy for another (Holzmann), did he regain credibility.

Schröder's problems suggest that in a country such as Germany, where the complexity of the institutions and rules of interaction lead to a "joint-decision trap" when the coordinative consensus breaks down (Scharpf, 1988), there is still a place for a forceful communicative discourse. None of Schröder's attempts so far have met the bill, however, because he would have needed to construct a discourse that convinced the public not only of the necessity of reform but also of its appropriateness in terms that resonated better with specifically German norms and values. Even this would not have been enough, however, because unlike in more single-actor systems where a persuasive communicative discourse accompanying the imposition of reform may be sufficient (because a public that is persuaded of the necessity and appropriateness of reform is most likely to vote the reform party back into office), in multiactor Germany, such a discourse can only be the first step in the process of reform. Here, reform also depends on the further ability of the communicative discourse to frame the coordinative discourse among the social partners, the opposition, the Länder governments, and the federal government by providing key policy elites with the language and set of concepts that would enable them to reconstruct their coordinative discourse and, with it, to create a new basis for consensus. It remains to be seen whether Schröder will find his way.

## ITALY AND FRANCE

Italy and France are quite similar to the Netherlands and Germany in basic postwar welfare state structure and values, as reasonably generous, gender- and status-differentiated welfare states focused on the family, with the benefits centered on the core workforce of male breadwinners. But Italy remained the most traditional in terms of its emphasis on the family and women's place in the home (Ferrera & Gualmini, 2000), whereas France, beginning in the late 1950s, emphasized more "Republican" aspirations, with state provision of extensive services not only in health and education but also in day care and elderly services (see Levy, 2000). Moreover, multiactor Italy had much less state capacity and much less cooperative relations among the social partners and with the opposition than either the Netherlands or Germany and was therefore even less able to gain agreement or impose reform in response to crisis. By contrast, single-actor France had nearly as much state capacity as Britain and New Zealand and could in fact impose reform—although the greater tradition of contestation meant that it was also more likely to back down in the face of protest in the streets (see Schmidt, 1996).

As a result, in Italy, reform initiatives would ordinarily have to be the product of a wide group of policy elites engaged in a coordinative discourse that built agreement for policy change among themselves, whereas in France, they would be the product of a restricted policy elite engaged in a communicative discourse that legitimated policy change to the general public. As such, one might expect that Italy would have had an even harder time with reform than Germany, whereas France would have had little problem instituting radical reform, as in Britain and New Zealand. Instead, Italy began its reform of the welfare state in the early 1990s, way ahead not only of Germany but also of France, which managed to begin significant but still moderate reform only in the late 1990s. The difference is that Italy came up with a successful legitimating discourse much earlier than France.

### ITALY

In Italy, welfare state reforms have been reasonably modest so far. But for Italy, given the state's traditional incapacity, in the 1980s in particular as social expenditures rose astronomically in response to escalating demands (see Ferrera & Gualmini, 2000), the turnabout is all the more remarkable. How do we explain this turnabout? A good deal of credit must go to the communicative discourse about European integration, which served as the "rescue of the nation-state," helping Italy to overcome traditional normative fragmentation (see Ferrera & Gualmini, 1999) and problems with its coordinative

discourse. The discourse about the EMU focusing on the *vincolo esterno* or external constraint (Radaelli, 1998) was not simply an economic necessity to the Italians, however, but also a question of national pride (Sbragia, 2001)—and as such, it served to justify any sacrifice.

The European discourse alone, however, was a necessary but not a sufficient condition for welfare state reform. Without the political and institutional changes of the early 1990s, neither the discourse nor the welfare policy reform it supported could have been successful (see Ferrera & Gualmini, 2000). These changes made it possible for the first time in the postwar period for governmental leaders with clear political responsibility and control to take effective action and to engage in a communicative discourse that sought to clarify more than to obfuscate, to legitimate rather than to palliate, and thereby to gain widespread public support for its actions. Moreover, the changes also made it possible for such governments to engage in a successful coordinative discourse with labor on reform of the welfare state (in those areas in which unions have major responsibility) rather than, as in the past, simply to seek to buy them off. The results were important changes not only in the structure of welfare through reforms in 1992, 1993, 1995, and 1997 but also in the structure of work, with the institution, beginning in 1992, of an incomes policy, the end of the system of wage indexation that had led to spiraling wages, and the reform of collective bargaining (see Ferrera & Gualmini, 2000; Regini & Regalia, 1997).

Most striking about the new Italy—as opposed not only to the old Italy but also to corporatist polities such as Germany where coordinative discussions are held behind closed doors and the subsequent communicative discourse is quite thin—is how extensive is the communicative discourse and how close it has stayed to the content of the coordinative discourse (even if the details of the compromises may be left out). The welfare reform discourse focused on the need to accept sacrifices now (primarily through cuts in benefits and wage restraint) to gain in the long run from the *risanamento* (return to health) of the welfare system not only by a return to financial health and greater efficiency but also by an increase in social equity and an end to the unfairness, corruption, and runaway spending that threatened to bankrupt the state (see Ferrera & Gualmini, 1999, 2000; Levy, 1999). This is when the government made an impassioned plea for *più ai figli, meno ai padri* (more to the children, less to the fathers), which struck a highly receptive chord (Rossi, 1997). By insisting on the importance of balancing economic return to health with social justice, the discourse served to convince both the general public and the social partners of the necessity as well as the appropriateness of reform. This was aided, of course, by the acute fiscal crisis in the summer of 1992. But fiscal crisis was not enough to guarantee agreement, as Berlusconi's failure in 1994 attests,

when his attempt to impose reform led to major strikes and demonstrations. The failure itself can be explained by Berlusconi's adversarial stance with regard to the unions, in contrast with the Dini government's willingness in 1995 to seek "concertation" with the unions and enter into an elaborate coordinative discourse with them, which also involved rank and file union members in an extensive deliberative process culminating in a referendum (Baccaro, 2000).

More recently, the only false notes have been in the government coalition itself. First, the Prodi government had to scale back some of its proposed welfare reforms and ultimately fell because of the Communists, who were less convinced by the European discourse and more concerned to block welfare reforms that they saw as detrimental to blue-collar workers and the very poor. Then the d'Almeida government, which took office in October 1998 and did not depart much from the legitimating discourse on Europe as the rescue of the nation-state or on social equity in the reform of the welfare state, also had problems negotiating further welfare state reforms and also fell as a result of problems with coalition members on reform efforts. This suggests that the discourse on Europe, once Italy made it into the EMU, may not continue to exercise the same unifying power as prior to entry and that further welfare state reform may therefore encounter increasing difficulties—especially since the election of Berlusconi in May 2001. All in all, however, Italy's ability to reform beginning in the early 1990s has been truly extraordinary, especially when one contrasts it with France, which had all the state capacity and yet still did not manage significant reform until the late 1990s.

#### FRANCE

In France, although the economic crisis beginning in the 1980s put increasing pressure on the welfare state, it was not until the early 1990s that French governments actually tried to do anything about it. Throughout the 1980s, in fact, successive governments of the Right and the Left focused primarily on the reform of the structure of the economy and of work, while the welfare state continued to expand as it absorbed the costs of restructuring industry through generous early retirement benefits and unemployment compensation. For the Left in particular, this meant abandoning both their socialist policy program and discourse. The communicative discourse that followed offered justification for the shift to a moderate neoliberal economic policy program in terms of the *contrainte extérieure* or the external constraints imposed by globalization and the need to remain in the European Monetary System, which would act as a shield against globalization. But whereas the Socialists made clear how necessary the new economic program was to

relaunch growth and fight unemployment, they neither did nor could do little to demonstrate its appropriateness in terms of the socialist values they had espoused throughout the postwar period. Instead, they fell back on the appeal to French national pride and spoke of the economic combat for national survival and of national revival and modernization. And when the welfare state came up, they claimed that they would defend it, with President Mitterrand setting himself up as the “guarantor of national unity and social justice” (as cited in Labbé, 1990, pp. 157-158).

When the Socialists lost power in 1986, it was to a right-wing coalition that had seemingly abandoned the postwar Gaullist discourse in favor of a somewhat Thatcherite, neoliberal discourse espousing the “retreat of the state.” But for the Right, too, the “republican consensus” on the welfare state was not to be challenged. The Right’s neoliberal discourse was in any event largely dropped with its electoral defeat in 1988. And thereafter in place of an overall legitimating discourse of the Left or the Right, successive governments continued to talk about the need to rise to the challenge of Europeanization as a guard against the threat of globalization to justify continued industrial reform (Schmidt, 1997). This European discourse worked reasonably well with the general public only until the recession of the early 1990s, at which point Europe itself seemed to generate economic problems, with the commitment to monetary union seemingly demanding cutbacks in the welfare state. This is when the lack of an overall legitimating discourse became particularly problematic, given the need for a discourse capable of reconciling neoliberal economic policies with the underlying welfare state values of social solidarity and avoidance of exclusion.

By the mid-1990s, all agreed that reforms were necessary if the country was to meet the Maastricht criteria as well as its future obligations with regard to the near-bankrupt social security system. This turned out not to be easy because the experience of macroeconomic and microeconomic reform since the early 1980s had left the public distrustful of further reform in the socioeconomic arena (Levy, 2000). Moreover, whatever the public’s acceptance of neoliberal macroeconomic and microeconomic reforms, opinion polls show that the large majority remained squarely behind the social security system and were certainly unwilling to see it dismantled (Schmidt, 2000b). This came home most dramatically in the response to Prime Minister Juppé’s attempt to reform public sector pensions, which was something of a throwback to the old “statist” approach of imposing “heroic” reform without prior consultation (see Schmidt, 1996). The protests themselves gained widespread public support not so much because the French rejected the substance of the reforms (according to an opinion poll at the time a majority of French accepted that the government had to put into place drastic social security

reforms—at 51% to 40%—Sofres, 1996) as because they objected to the process, more precisely because the government had failed adequately not only to communicate to the public how the reforms might legitimately fit with values of social solidarity (or its electoral promises) but also to inform the most interested parties of the proposed policies, let alone bring them into the construction of the policies themselves.

The Socialists in government since June 1997, however, appear to have done better both in terms of communication and coordination and in softening the impact of the neoliberal policy program. The government's coordinative discourse, to begin with, has been much more accommodating by opening up policy construction to a less restricted group of policy elites through the use of expert commissions to propose reforms on controversial issues and corporatist concertation “in the shadow of the state” for reforms such as the 35-hour work week. Moreover, the communicative discourse, although remaining the work of a highly restricted governmental elite, or perhaps because of it, has been very successful, at least as judged by the prime minister's unprecedented popularity across his first 3 years in office. This is because the government has come up with a coherent discourse that appeals to values that the public continues to hold dear.

The discourse itself has tended to be reasonably moderate and balanced in tone, as it promised “neither pause nor acceleration” in the pace of reform; neither slashing benefits to the poor nor doing nothing while the social security system goes into deficit; neither declaring class warfare on the rich nor allowing the privileged not to pay their share; and neither dismantling the welfare state nor failing to address its dysfunctions (Levy, 2000). For the first time since the Socialists turned to neoliberal economic policies in 1983, moreover, they have consistently sought to show how their liberalizing policies actually fit with Left-leaning values. Thus they argued that their reforms were not only economically efficient but also promoted social equity, combated social exclusion, and healed the “social fracture,” with privatizations that sought to secure investment as well as to guarantee jobs while involving the unions in the negotiations, with taxes that favored greater redistribution of income toward the poor without increasing spending, and with the creation of private pensions funds administered by the social partners rather than by private companies, as the Right had sought to do (Levy, 2000).

The Jospin government, in short, seems to have managed to construct an elaborate communicative discourse and the beginnings of a wider coordinative discourse that together have served to facilitate the institution of a wide range of reforms that under earlier governments had been stymied or generated social conflict. The government still confronts great difficulties, however, not only because of the economic pressures that reduce socioeco-

conomic capacity but also because of the institutional context that makes productive coordinative discussions with the social partners difficult and thus hinders reform efforts. Nonetheless, although the government's reforms are so far reasonably modest, it at least seems to have convinced the public through its discourse that it is possible to reform the welfare state in a way that promotes the values of social solidarity and even egalitarianism and redistribution. As a consequence of a more coherent communicative discourse as well as greater concertation, it has made progress where its predecessors had not.

### CONCLUSION

Discourse, in short, matters. Countries managed more or less successfully their adjustment to the external economic pressures beginning in the 1970s not only because of their greater or lesser economic vulnerabilities, their greater or lesser institutional capacities, and their better or worse policy responses but also because of their more or less convincing legitimating discourses. In the cases of single-actor Britain and New Zealand, with similar economic crises, institutions, and values, the outcomes differed also because Britain had a transformative communicative discourse and New Zealand had hardly any legitimating discourse at all. In multiactor Netherlands and Germany, where crises came at different times but where institutions and values were similar, the outcomes again differed because Germany has been unable to emulate the Netherlands, whether in its coordinative discourse on the reform of work or its communicative discourse on the reform of welfare. Finally, in multiactor Italy and single-actor France, Italy's earlier progress in the reform of welfare and work can also be attributed to a transformative discourse that in France came much later than one might have expected, given its greater institutional capacity.

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