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ORIGINAL ARTICLE

National liberalisms in a neoliberal age: ideas and economic adjustment in contemporary France and Germany

Mark I. Vail[1]

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Abstract

In contrast to prevailing claims of neoliberal hegemony, this article argues that French and German trajectories of adjustment have diverged from standard neoliberal recipes in important ways. France has accompanied liberalization with macroeconomically oriented measures designed to bolster aggregate demand, while Germany has imposed the burden of reform on outsiders while shielding insiders from the costs of adjustment. This article argues that differences in French and German policy trajectories are informed by distinctive national liberalisms—'statist liberalism' in the French case and 'corporate liberalism' in Germany—that entail divergent models of state intervention, social organization, and political accountability, while rejecting standard neoliberal prescriptions. It develops these claims through an analysis of French and German labour-market reforms in the 1990s and 2000s and policy responses to the post-2007 crisis. It argues that a focus on the political power of ideas is crucial for understanding broad national adjustment strategies across institutional, policy, and partisan contexts.

Keywords Fiscal policy · Labour-market policy · France · Germany · Liberalism · Liberalization

How do advanced European democracies adjust economically in a neoliberal era? Since the 1990s, conventional wisdoms have held that states' latitude for shaping trajectories of economic adjustment is sharply constrained by limits on fiscal discretion, porous borders that facilitate the expansion of trade and foreign direct investment, the interconnection among national systems of finance, and the exit option enjoyed by firms increasingly structured as multinational corporations (Rodrik 2011; Stein

✉ Mark I. Vail
mvail@tulane.edu

[1] Department of Political Science, Murphy Institute of Political Economy, Tulane University, New Orleans, LA 70118, USA

2016). Though the force of such constraints has been contested, less so has been the force of neoliberal economic ideas, which are viewed as powerful political and ideological mechanisms undergirding economic austerity and market hegemony (Blyth 2013; Peck 2010). According to this narrative, neoliberalism has become a hegemonic discourse that has constrained policymakers in durable ways (Thatcher and Schmidt 2013). Even as it acknowledges the use of state power to achieve its goals, much of this literature adopts a view of neoliberalism as largely negative—defined more by what it opposes (e.g. robust collective-bargaining institutions and systems of social protection) than what it embraces. Steven Vogel has argued that this negatively formulated conception of neoliberal markets stems from the false dichotomy of 'government versus market', whereby 'more' market means 'less' state (Vogel 2018: 1–3). Recent populist insurgencies have done little to challenge this ostensible orthodoxy and, in some cases (e.g. the USA), have actually reinforced it, populist rhetoric notwithstanding. In Europe, the Eurozone crisis, clumsily managed but never really resolved, reflects the entrenchment of monetarist principles and commitments to fiscal austerity that no populist insurgency seems likely to dislodge, at least in the short term. In such an environment, despite national variations on this common theme, policymakers are cast as mere facilitators of states' acquiescence to market hegemony.

Though certainly not alone in this regard, fiscal and labour-market policies have lain at the centre of ongoing debates about the appropriate scope for state action in a neoliberal age, given their implications for how income is generated and (re)distributed in market economies. Since the 1990s, labour-market reform in advanced industrial countries has challenged venerable assumptions about work and economic security at the core of post-war Keynesian bargains. On the supply side of the labour market, many reforms have worked to spur job creation—either directly, through job-creation schemes, or indirectly, by subsidizing employers so as to amplify incentives for private-sector job creation. On the demand side, such measures have involved limitations on unemployment insurance and job-search and training requirements designed to encourage workers to seek out and accept available positions. In many cases, particularly after the 2007 financial crisis and the Great Recession that followed, such policies have been supported by programs of fiscal stimulus designed to foster growth and create jobs, only to be undermined by a regime of fiscal austerity.

Most labour-market reforms have entailed significant liberalization and moved national systems of labour-market governance in more market-conforming directions, while fiscal-policy trajectories have been shaped by an orthodoxy of austerity and budgetary constraint. As a result, many scholars, particularly on the Left, have argued that Europe has followed a common trajectory of 'neoliberalism' in common with Anglo-American countries. In this view, market-conforming reforms in the labour market, as well as changes in fiscal policy that weaken or even overturn commitments to maintain full employment, are neoliberal by definition, involving broad erosions of workers' economic security and decades-old national social contracts. Such reforms are viewed as part and parcel of neoliberal programs, which David Harvey has characterized as involving much 'creative destruction… of divisions of labour, social relations, welfare provisions, … and ways of life and thought', with a view to creating a social and economic order that 'seeks to bring all human action into the domain of the market' (Harvey 2005: 2–3).

Other, more recent accounts focus on how broadly 'neoliberal' practices can function even in the absence of the wholesale dismantling of institutions, informing practices that expand the scope of market forces and curtail non-market arrangements. For example, Lucio Baccaro and Chris Howell deploy the concept of institutional 'plasticity' to describe how relatively stable industrial relations in Europe have nonetheless permitted—indeed, in some cases hastened—the advent of a 'clear liberalizing trajectory' (Baccaro and Howell 2017: 2), particularly with respect to the growing power of employers over wage-setting and shopfloor organization. Others, notably Kathleen Thelen (2014), have shown that liberalization in some areas can be accompanied by more solidaristic and coordinated practices in others. Still others, including Cahill and Konings (2017) and Davies (2017), view neoliberalism as an historical construct that has emerged and evolved as 'a reflexive engagement with the limits of free markets' (p. 16), a shared set of assumptions about the nature of economic freedom and the importance of limiting the political discretion over the capitalist order.

For all of the important strengths of such scholarship, it suffers from two important limitations. First, as in the case of Thelen's work and the related Varieties-of-Capitalism approach, a focus on particular institutional domains (in this case, largely firms and labour-market institutions) can obscure countervailing or concomitant developments in other policy areas, such as fiscal interventions that have supported demand, wages, and growth. I build on Thelen's innovative work by focusing on a broader range of policy domains and centre my analysis on national liberal traditions, rather than 'liberalization', thereby calling attention to affirmative conceptions of the state's role and its relationship to prevailing conceptions of social organization. Second, work that views neoliberalism as the intellectual infrastructure of contemporary capitalism and the source of broadly liberalising policy trajectories provides limited analytical leverage over national variation in what Vogel (2018) has termed patterns of 'market governance' across policy and institutional domains. As Jamie Peck has argued, this transnational understanding of neoliberalism, informed by a negative formulation of its key precepts, has elevated neoliberalism to the status of a hegemonic, if imprecise, discourse: 'For all its doctrinal certainty, the neoliberal project is paradoxically defined by the very *unattainability* of its fundamental goal—frictionless market rule…. Pristine definitions of neoliberalisation are therefore simply unavailable; instead, concretely grounded accounts of the process must be chiselled out of the interstices of state/market configurations' (Peck 2010: 15–16).[1] As scholars such as Gamble (1988) have pointed out, one of neoliberalism's central paradoxes has been its adherents' use of state power to establish a marketized economic order, thereby using as a tool the very state whose scope they hope to curtail.[2] Nonetheless, viewed as a transnational project aiming to curtail non-market arrangements, the concept of 'neoliberalism' provides few guides for

[1] Cerny (2016: 83–84) argues that the historical reliance of capitalist markets on state intervention shows that 'the conditions for market efficiency do not arise spontaneously from human (or social) interaction'.

[2] In this respect, Gamble builds upon Polanyi's (1957) conception of the 'double movement', whereby the deployment of the state as an instrument of market creation generates societal pressures for the state to buffer society from market vagaries.

understanding nationally specific, evolving strategies of market governance whereby capitalist economic orders are engendered and sustained.

In an effort to provide a more robust affirmative account of how liberalisms inform national strategies of economic adjustment, this article focuses on France and Germany, two countries in which neoliberalism has long been a relatively marginal economic discourse and which have faced similar economic challenges since the 1990s, including high unemployment, fiscal imbalance, and constraints on fiscal and monetary policy stemming from the rules and norms governing the Eurozone. Policymakers have confronted these challenges with initiatives which exhibit common patterns and themes, even as they have departed from both standard neoliberal recipes and trajectories that their models of capitalism would lead one to expect. In this way, observed patterns of reform and adjustment provide ample reason to question both the prevailing emphasis upon 'neoliberalism' and standard historical-institutionalist accounts that view France and Germany, respectively, as prototypically 'statist' and 'neocorporatist' states (e.g. Shonfield 1965), and, at least in the German case, an archetype of a 'Coordinated Market Economy' (Hall and Soskice 2001).

Questioning these analytical frames, this article focuses squarely on the power of political-economic ideas. It argues that national liberal traditions in France and Germany have informed élite understandings about the structure of society and the attendant relationship between state and market, thereby helping to shape distinctive national policy trajectories that have departed from both standard neoliberal recipes and patterns of reform that conventional institutionalist approaches, many of which fail adequately to distinguish between distributions of political authority and its exercise, would lead one to expect. In so doing, it builds on a burgeoning literature that questions the assumptions of standard institutionalist and rationalist accounts (e.g. Blyth 2013; Parsons 2003). As Mark Blyth points out, such accounts focus on the adoption of established intellectual paradigms as 'autonomic' responses to new economic circumstances and relatively fixed material interests, rather than processes of reinterpretation of the nature of a crisis and its *meaning* for national political economies (Blyth 2002: 22–23). Clearly, policy outcomes are driven by multiple vectors of causality, including the effects of institutions, organized interests, and the initiatives of political leaders. That said, a focus on ideas allows us to account for broader patterns of policy change across institutional, political, and partisan contexts in ways that narrower attention to institutions, interests, and partisanship cannot, while providing analytical leverage over cases that depart from standard institutionalist or interest-based logics. My approach shares elements with the 'interpretivist' approach to the study of politics, which 'understands politics itself as a kind of interpretive activity' (Hay 2016; Finlayson 2004: 154) and leaves room for varying élite interpretations of the meaning of economic crises and the appropriate responses to them. Though institutions and interests are crucial pieces of the puzzle, I suggest, both are themselves products of historically evolving sets of elite understandings about the role of the state and its relationship to society and the economy.

My focus on national liberal traditions in France and Germany calls attention to distinctive understandings of the economic role of the state and limitations to it, the nature and structure of society, and the state's resulting responsibilities for economic governance. While far from exclusive bearers of national political-economic legacies, I argue that such traditions become operative in moments of economic uncertainty, when inherited political-economic models come under sustained challenge. In both the French and German traditions, prevailing notions of state responsibility are bound up with dominant conceptions of social order, and in particular whether society is viewed as consisting of ontologically distinctive groups. In France, a tradition of 'statist liberalism', involving a Republican emphasis on equality before the law and a privileging of the state as the guardian of collective welfare, has informed adjustment strategies that focused on the macroeconomy and the economic welfare of citizens *qua* citizens, rather than groups, which are distrusted as self-serving and parochial. This tradition privileges a vertical conception of political responsibility that connects the state and individual citizens. In practice, this has meant state-led responses to periods of economic instability that both privileged national economic welfare through the pursuit of largely macroeconomic goals and protected individuals left behind by economic development. In Germany, by contrast, a tradition of 'corporate liberalism', building on inter-war Ordoliberalism but departing from it in important ways, understands groups as the fundamental components of social order.[3] After 1945, this tradition helped to define the post-war Social Market Economy, in which key producer groups became privileged interlocutors for state authorities, even as the state's role became gradually more pronounced. From the liberalization and labour-market reform of the early 2000s, to the surprisingly robust Keynesian response to the post-2007 crisis, German policy continued to bear the stamp of a liberal tradition that championed constrained state power in the service of powerful groups, even as it retained a key role for the state in guiding economic development and embraced significant fiscal investments often masked in Ordoliberal guise. In contrast to the French case, the prevailing model of political responsibility in this tradition has been horizontal (within and between groups), with the state acting as a partner and first among equals rather than as a dominant, dispositive force. In place of the French tradition's macroeconomic orientation, German liberalism informed a 'mesoeconomic' focus on groups as the interstices between the macro- and microeconomy.[4] In both countries, I argue that patterns of reform and adjustment have often departed from expectations generated by conventional views of 'statist' France and 'neocorporatist' Germany in ways that call for attention to the power of political ideas. I provide an overview of each tradition's central characteristics, conceptual structure, and political and policy orientation in Table 1.

Below, I analyse how these traditions have shaped French and German fiscal and labour-market policy since the late 1990s, with an emphasis upon the period of labour-market crisis around the turn of the century and the responses to the post-2007 financial crisis and the Great Recession. The analysis is based upon a range of empirical data, including material drawn from dozens of original interviews, most of which were conducted between 2011 and 2016. I argue that fiscal and labour-market

[3] I derive this term from the Latin *corpus*, or 'body'. Contemporary references to 'Ordoliberal' Germany fail to capture the evolution of German economic thinking since the 1950s or the emphasis on groups that predated its emergence.

[4] My use of 'mesoeconomics' echoes earlier work on the concept, notably Holland (1987).

Table 1 French and German liberal traditions compared

	State's economic role	Model of social organization	Dominant model of social/political responsibility	Prevailing economic-policy orientation
French statist liberalism	Interventionist/dispositive	Individualistic/citizenship-based	Vertical (state-citizen)	Macroeconomic
German corporate liberalism	Coalitional/supportive	Group-based	Horizontal (inter- and intra-group)	Mesoeconomic

policy have been tightly intertwined, with labour-market liberalization and demand stimulus (whether discretionary or in the form of automatic stabilizers such as unemployment insurance) representing distinctive but related means for bolstering economic growth and employment.[5] In each case, I argue that France and Germany's distinctive brands of liberalism have heavily influenced policy and institutional outcomes that recourse to standard accounts of 'neoliberalism' and national models of capitalism struggle to explain.

Between citizens and the state: statist liberalism and labour-market reform in France

After the signing of the Maastricht Treaty in 1991, French authorities sought to achieve policies on the European level that the abandonment of traditional *dirigiste* instruments meant that they were unable to achieve at home. Despite the Treaty's heavily deflationary biases, French authorities were hopeful that Keynesian initiatives could be achieved on the European level, thereby developing a so-called *gouvernement économique* (Jabko 2006). In the meantime, France was caught between venerable statist impulses and the realities of a more liberalized economic landscape in which the scope of market forces had been greatly expanded. This dilemma informed reforms in the labour market that aimed to synthesize liberalization of labour-market rules, subsidization of employers, and a focus on boosting demand, growth, and employment through non-*dirigiste* means.

Between 1997 and 2003, in the face of high rates of structural unemployment across much of Continental Europe, Prime Minister Lionel Jospin's 'plural left' coalition worked to liberalize labour-market rules while using the state's authority and resources to modify firms' behaviour and subsidize job creation. The administration's strategy involved two broad categories of intervention. The first entailed subsidization of job creation in segments of the labour market that were particularly affected by long-term joblessness. The most significant of such measures was the

[5] Here and throughout, I use the term 'Keynesian' to describe measures designed to sustain demand and foster economic growth, whether in the form of discretionary spending or automatic stabilizers. I do not intend to suggest that elites were willing to fund such efforts through heavily counter-cyclical deficit spending.

Programme emploi-jeunes, or 'Program for Youth Employment', which offered subsidies to public-sector entities who hired workers between the ages of sixteen and twenty-five, paying 80% of the minimum wage. The program gave the Labour Ministry the authority to approve jobs, which were expected to represent real opportunities for lasting employment, and contracts lasted for 5 years, offering recipients the kind of positions likely to lead to full-time employment (Vail 2010: ch. 5).

The second, and higher-profile, prong of Jospin's strategy involved reducing the standard work week from 39 to 35 h. The so-called Aubry Laws, named after Labour Minister Martine Aubry, were designed to reallocate existing work and subsidize the creation of new positions. Jospin hoped to use the law to revitalize France's system of industrial relations, compensating for the historical weakness and fragmentation of French trade unions (Baccaro and Howell 2017: ch. 5), itself both a legacy of the state's historical distrust of organized labour (and organized interests more broadly),[6] and the source of an enduring governance challenge for administrations seeking to liberalize many labour-market regulations. This strategy lay in some tension with the statist impulse, which tends to inform strategies that impose change rather than securing it through negotiation (interviews, G. Cette, Paris, 20 June 2008; and P.-A. de Malleray, Paris, 1 July 2008). The first law increased social-contribution exemptions to employers who negotiated a 35-h weekly work-time limit, while exempting social-security contributions up to 1.8 times the minimum wage and establishing flexible annual limits on work time and overtime. Reflecting the laws' macroeconomic orientation, one former government official claimed that the measures were essentially Keynesianism in disguise, aiming to boost demand by increasing employment, despite their superficially supply-side orientation (interview, X. Lacoste, Paris, 17 July 2008). They were also sustained by two decades of expansion of citizenship-based income support, whose early hallmark was the 1988 creation of the *Revenu minimum d'insertion* (RMI), a guaranteed minimum income coupled with measures designed to encourage job seekers to accept available positions (Vail 2018: 44).

Conflict over the laws helped give momentum to MEDEF's *Refondation sociale* campaign, which proposed a wide array of liberalizing reforms, focusing on unemployment insurance, vocational training, health insurance, and pensions. In reality, however, MEDEF's outcry against the measures had more to do with the manner of their formulation and symbolic associations with the Left's agenda than with any principled objection to their content (Vail 2010: ch. 5). In fact, the measures increased employers' social-contribution exemptions and their discretion over the allocation of labour (for example allowing them to calculate overtime on an annual rather than a weekly basis). By the end of 2002, the laws had led to the creation (or preservation, in the case of avoided layoffs) of an estimated 350,000 jobs, most in the private sector (de Montalembert 2004: 53). The laws reflected some of the tensions within the statist liberal tradition, including the reliance on the state to drive

[6] In the case of labour, this distrust was codified in the Le Chapelier Law of 1791, which banned guilds. It also echoed and was reinforced by Revolutionaries' anti-clericalism, which stemmed from the Catholic Church's connection to the *ancien régime*.

reforms coupled with an emphasis on reducing its role in managing the economy and on devolving authority to organized interests. Even as unions as organizations were treated with reluctant favour *faute de mieux*, workers *qua* individuals were viewed both as the modal economic constituents and as the hoped-for engine of demand-driven growth.[7]

Other labour-market measures introduced by Jospin's administration and its centre-Right successors reflected a similar emphasis upon promoting individual economic security and sustaining demand through boosting workers' disposable incomes. For example, the 2004 *Loi Fillon* allowed some employers to return to a 39-h week, raised overtime limits, and exempted SMEs from some of its requirements. In similar fashion, after 2007, the administration of centre-Right President Nicolas Sarkozy promulgated the 'Law Promoting Work, Employment, and Purchasing Power', which loosened the rules governing work time, exempting hours beyond 35 per week from social contributions and income tax. In 2008, the government introduced a reform on 'Renewal of Social Democracy and Reform of Work Time', which increased the number of allowable annual working days and permitted companies to negotiate directly with worker representatives, rather than with officially sanctioned trade-union representatives. Both reforms aimed to use microeconomic mechanisms to pursue the macroeconomic goal of sustaining demand, which had long been central to France's growth model.

Authorities were also active in promoting measures to encourage workers to seek out and accept available positions. In 2000, MEDEF and reform-oriented unions agreed on the so-called *Plan d'aide et de retour à l'emploi* (PARE), which ended the degressivity of benefits whereby benefits declined over time, but required recipients to sign a contract with the ANPE, the national employment office, agreeing to an individualized *Projet d'action personalisé* (PAP). The measure bore the imprint of statist liberalism's individualistic understanding of labour, while avoiding the kind of coercive distinction between short- and long-term unemployed characteristic of the German approach, as I describe below. In April 2008, frustrated with the slow pace of negotiations between the social partners, the Sarkozy administration passed the so-called *Loi sur les droits et les devoirs des demandeurs d'emploi*, which defined the criteria of a 'reasonable job offer' in terms of the percentage of a worker's previous wage. As in the case of the Aubry Laws, the French state proved willing to intervene to achieve its desired outcomes if social bargaining failed.

After the late 1990s, successive French administrations of both Left and Right thus pursued a relatively consistent set of policy priorities informed by the statist liberal tradition's focus on macroeconomically oriented efforts to spur economic growth, in ways that avoid favouring or subsidizing particular social or economic groups and often marginalize unions and employers' associations. This agenda entailed liberalization of labour-market rules combined with the subsidization of job creation and efforts to foster economic growth through a focus on workers' incomes, combined with a focus on aggregate demand. The employment crisis that emerged

[7] This tension between unions as organizations and workers as beneficiaries would find echoes in the German case, though according to a very different logic, as I describe below.

in the 1990s thus elicited a set of responses striking in their substantive consistency over time and across partisan lines.

This synthesis of a focus on individual workers and a broader macroeconomic strategy for sustaining demand and growth continued under succeeding administrations. Labour-market reform initiatives undertaken by the Socialist administration of François Hollande after 2012 continued to work to balance state-led labour-market reform with a heavy emphasis upon workers as individuals rather than members of organized interests. One example was the so-called *compte personelle d'activité*, which the government saw as fostering 'individual empowerment' by enabling workers to accumulate credits redeemable for job-retraining programmes. Another was the *compte individuelle de formation*, which allows workers to accumulate rights to job training that can be used at any time in their careers (interview, official, Ministre des Finances, Paris, 10 July 2015). Like his predecessors, President Emmanuel Macron, elected in 2017, has pursued a similar strategy, notable in his promises to liberalize the tax system and labour-market rules, combined with commitments to expand social protection for individuals traditionally excluded from contributory social-protection schemes, such as the self-employed (Jaume 2017). For all of the claims of Macron's novelty as a reformer and criticisms of his 'neoliberal' orientation by the far Left, he has thus taken a page from a playbook that long predates the advent of neoliberalism and rejects many of its precepts, even if, as the recent unrest surrounding protests by the so-called *Gilets jaunes* movement shows, the solidaristic components of his agenda have been overshadowed by many workers' continuing sense of economic insecurity and his high-handed and imperious political style.

French statist liberalism and Keynesianism by default in the great recession

Similar tensions between state responsibility and the constraints of the institutional and macroeconomic environment shaped France's reaction to the post-2007 financial crisis and the Great Recession. As growth rates plummeted, unemployment skyrocketed, and tax revenues collapsed, EMU's strictures on fiscal policy and its deflationary monetary-policy regime both exacerbated the slowdown and limited the tools available to confront it. Perhaps nowhere were these limitations more keenly felt than in France, whose Faustian bargain in the service of EMU had retained a statist economic-policy worldview while trading away many of its traditional means.

The core of the French response centred on constrained demand stimulus designed to minimize job losses and boost aggregate demand, while focusing on individualized income support. Laurent Wauquiez, Secretary of State for Employment, proclaimed that 'this choice is… exclusively a policy designed to support job creation' (Agence France Presse 2008). Faced with mounting protests in the face of continuing layoffs, the government agreed to an additional €3 billion aimed at supporting consumption. The package included a €200 bonus for recipients of the *Revenu minimum d'activité*, or RMA (France's minimum income benefit, an heir to the RMI), more generous unemployment benefits, and a €150 subsidy for low-income households. By 2010, France had spent a total of €38.8 billon on stimulus measures

(1.75% of GDP), about the same as in the more liberal U.S. (1.9%) and U.K. (1.4%) and much less than Germany. This modest response was surprising given France's bleak economic situation: in 2009, French GDP shrank by 2.5% and unemployment climbed to 9.5%, compared to Germany's 7.8% (OECD 2009). Cognizant of Eurozone-related fiscal limitations, officials relied upon the country's generous safety net to do much of the work of sustaining demand. As Finance Minister Christine Lagarde observed, 'The French model provides shock absorbers that were already in place. We haven't had to reinvent our unemployment, health, or welfare systems' (Economist 2009).

The statist liberal tradition shaped interpretations of and responses to the crisis in two important ways. First, it supported macroeconomic strategies that focused on public spending on infrastructure, investment, and individualized income-support policies. Second, it favoured a surprisingly small stimulus that relied on existing automatic stabilizers aimed at the population as a whole, rather than a more particularistic strategy of targeted subsidies or tax cuts.[8] But French reactions to the crisis also reflected the realities of the post-Maastricht context, in which France's statist impulses were checked by powerful fiscal constraints. The French reliance on existing social-protection arrangements made officials reluctant to cut these measures back in the face of high levels of debt and repeated demands from Germany, the ECB, and their allies that France cut spending in order to stabilize the euro. As the Eurozone crisis deepened in 2010, Sarkozy's administration avoided significant budget cuts and worked instead on convincing Germany to soften its insistence on austerity. According to one official in the Elysée during Sarkozy's presidency, the French viewed their role as nuancing Germany's dogmatic position that all countries' debt must be treated alike and to keep such statements by German officials from unsettling international bond markets (interview, former Trésor official, Paris, 16 February 2015). At home, however, a reluctance to cut spending for fears of stifling economic growth limited the extent of French budget cuts. Confronting a budget deficit of 7.1% of GDP in 2010, Sarkozy proposed €65 billion in budget cuts and tax increases in 2011, with only €7.5 billion scheduled for 2012 and most slated for after the 2012 election. In keeping with practice of previous governments, Sarkozy aimed to preserve generous income-support policies that sheltered vulnerable workers and constituted a central mechanism of demand stimulus.

Sarkozy's defeat by Socialist François Hollande in 2012 did little to resolve the underlying tensions of France's statist liberal tradition, or, ultimately, to alter previous administrations' policy trajectories. Elected on promises to resist austerity, Hollande's administration committed to subsidizing the creation of 150,000 new youth jobs, as well as rolling back the previous administration's increase of the retirement age. He promised to finance these measures in part through a controversial 75% tax on households with annual incomes over €1 million, coupled with higher taxes on large firms, while raising the minimum wage. At the European level, he promised

[8] Such income-support programs had been consistently expanded during the 1980s and 1990s, resulting in an increase in aggregate social spending from 25.2% of GDP in 1985 (after President Mitterrand's abandonment of *dirigisme*) to 28.7% in 2005 (OECD 2017).

to renegotiate the Eurozone's fiscal compact, which committed signatories to reducing public debt and deficits, in ways that would offer greater support for economic growth as a counterbalance to its single-minded emphasis on austerity. Hollande proclaimed that he intended to give 'a new direction to Europe' and that 'austerity need not be Europe's fate' (Cowell and Kulish 2012). These ambitions soon ran up against significant political and economic limitations, however. Economically, Hollande faced continuing economic stagnation (GDP growth in 2012 was effectively zero) (OECD 2014), rising unemployment (which hit 9.9% in the same year) (World Bank 2014), and a deficit of 4.8% of GDP at the end of 2012 (well above the government's target of 4.5%) (Carnegy 2013). Politically, he faced German insistence on austerity and an increasingly restive public unhappy with France's poor economic performance.

His grudging acceptance of austerity fomented growing discontent on the Left of his own party, with a growing number of his ministers publicly questioning his leadership. In August 2014, Hollande reshuffled his cabinet, firing Economy Minister Arnuad Montebourg and Education Minister Benoît Hamon and naming Manuel Valls, a young pro-market reformer, as Prime Minister. While this move quelled the revolt on the Left, it did little to reconcile the tensions within the administration's policy approach. Even as he admitted that 'there is a demand problem all over Europe… that is mainly due to the austerity policies of the past' and called for renewed stimulus and investment on the European level, Hollande proclaimed that 'any measure using the budget to relaunch activity would increase our public debt and worsen our foreign trade [deficit]' (Carnegy 2014).

In the negotiations over the Maastricht Treaty in the early 1990s, French authorities essentially bargained away the substance of their vision of potentially reflationary *gouvernement économique* for a European architecture that undermined the political will required to accomplish it. As a result, they were limited in their capacity to respond aggressively to the economic crisis, forced instead to rely upon existing social-protection arrangements and the automatic stabilizers that they entailed. This strategy of 'Keynesianism by default' thus reflected both a macroeconomically oriented strategy that privileged individual citizens and the constraints faced by policymakers seeking to support purchasing power and incomes. As in the case of labour-market policy, current President Macron's approach to fiscal policy has also borne a statist liberal stamp, focusing on controlling public expenditures while maintaining robust network of automatic stabilizers and expanding individually targeted income support (Chassany 2017).

Corporate liberalism, group subsidization, and labour-market adjustment in Germany

Germany's liberal tradition informed a response to the labour-market stagnation in the late 1990s that focused on subsidizing and protecting labour-market insiders and other core groups in the Social Market Economy, rather than prioritizing macroeconomically focused measures and individual income support in the French fashion. With the election of Gerhard Schröder's SPD-Green coalition in 1998, Schröder's government pushed back against the limitations on the state's authority stemming from the principle of *Tarifautonomie*, which reserved to employers and unions the authority to bargain over wages and labour allocation, in favour of an approach that highlighted the 'rights and obligations' of the unemployed and a strategy of *Fordern und Fördern*, or 'demanding and supporting' workers' activation. This strategy deepened the already-significant cleavage between skilled industrial workers and the long-term unemployed, who were now portrayed as distinctive factions, rather than fluid groups whose membership overlapped. Far from representing an embrace of Anglo-American neoliberalism, as some of his critics maintained, however, this new approach reflected many of the core principles of 'corporate liberalism'. Even as Schröder worked to erode the social partners' traditional authority, he pursued reforms that favoured the economic interests of groups whom they represented, such as skilled industrial workers, while imposing costs on unincorporated outsiders, including single women with children and the long-term jobless.

This focus on subsidizing insider groups was not developed in isolation, however, as the political imperatives of reducing Germany's unemployment rate required some modest support for job creation among labour-market outsiders. The best-known such initiative was the so-called *JOB-AQTIV Gesetz*, or law for 'Job-Activation, Qualification, Training, Investment, and Placement (*Vermitteln* in German)', which restructured the BA's job-placement services in an effort to reduce long-term unemployment. Another initiative in this vein was the so-called *Sofortprogramm zum Abbau der Jugendarbeitslosigkeit* (referred to as 'JUMP'), which devoted significant resources to the goal of creating 100,000 new jobs for young workers. This measure created new training and apprenticeship programs (focused particularly on highly skilled, export-intensive sectors), introduced wage subsidies for firms that hire young unemployed workers, and instituted additional job-counselling services (Vail 2010: ch. 5).

Such modest efforts to foster job creation, however, were overshadowed by the administration's more controversial initiatives to encourage the unemployed to accept available positions, particularly at the lower end of the wage scale. In summer 2002, the government established the 'Hartz Commission', composed of experts from government ministries, employers' associations, and unions to make further recommendations on labour-market reforms. Part of the 'Agenda 2010' campaign, the controversial 'Hartz IV' reform cut benefits after 12 months to the level of the basic anti-poverty benefit. Because the long-term unemployed tended to have lower skill levels and to be outside of export-intensive sectors such as metalworking, chemicals, and machine tools, this reform implicitly represented a shift of much of the burden of labour-market adjustment from highly skilled industrial workers with union contracts to less-skilled workers, increasingly in the service sector.

Schröder's rejection of venerable understandings of labour-market policy came as a surprise to both the public and members of his own party. The German Left, both within the SPD and to its Left, as well as the unions, viewed his reforms as a betrayal of the German social contract and an attack on workers' social and economic rights. Although the unions railed against Schröder's reforms, however, this reaction was as much 'emotional' as substantive, representing a fear of a more generalized rightward shift of the mainstream Left rather than anger at tangible effects on their membership (interview, G. Horzetsky, Berlin, 10 June 2009). Equally important, it reflected an attack on the unions' institutional prerogatives stemming from the principle of *Tarifautonomie* and a threat to economically vulnerable workers, even as it left untouched the benefits relied upon by highly skilled insiders for whom joblessness was likely to be a rare and short-term affair. As in the case of fiscal policy described below, the corporate liberal tradition encouraged a distinction between unions as organizations, which Schröder proved willing to attack, and the core of their highly skilled rank-and-file in strategic export sectors, which his government was eager to shelter and subsidize. Furthermore, unlike in the French case, the administration's policy approach fostered divisions between incorporated labour-market insiders and unincorporated outsiders, rather than focussing on individuals *qua* workers across the labour market, in the French fashion.

Schröder's reforms thus reflected a dual strategy of subsidization of and investment in labour-market insiders and an aggressive use of state power to impose costs on outsiders, sometimes within the same policy initiative. The *JOB-AQTIV Gesetz*, for example, increased the obligations of job seekers and adopted a more contractual model of benefit eligibility, even as it devoted state funds to defraying non-wage labour costs and to expanding the vocational training schemes that disproportionately benefitted skilled workers. Even the Hartz reforms preserved the relatively generous unemployment benefits available to workers with long employment and contribution histories, cutting benefits only for the long-term unemployed. The corporate liberal framework thus informed Schröder's reinterpretation of the Social Market Economy in ways that diverged in important respects from traditional policy-making patterns while preserving the system's commitment to the welfare of core social and economic groups.

Corporate liberalism and Keynesianism by stealth in the great recession

After the painful labour-market reforms of the late 1990s and early 2000s, Germany's economic performance soon outstripped that of most of its neighbours. The decline in unemployment was impressive, falling from 11.1% in 2005 to 7.5% in 2008, the lowest level since 1993 (World Bank 2014). Recovering from economic growth rates that were zero or negative in the recession of the early 2000s, Germany posted growth rates of between 3 and 3.5% in 2006 and 2007, the highest rates in the post-reunification era (OECD 2014). Having run the gauntlet of labour-market rationalization in the previous decade, Germany had reaped significant economic rewards, preserving the core of its corporate liberal model while boosting economic growth and reducing joblessness.

The post-2007 financial crisis represented a sharp reversal of fortunes for Germany, whose growth rate plummeted to a shocking −5.15% in 2009. Fears of a shattered labour market spurred German policymakers to undertake an aggressive response to support domestic demand and employment while shielding the country, and particularly sensitive export-intensive industries, from the contagion of the international economic crisis (interviews, R. Lang-Neyjahr, Berlin, 23 June 2011;

and official, Bundesvereinigung der Deutschen Arbeitgeberverbände, Berlin, 22 June 2011). If the dilemma of the early 2000s was rationalizing the German labour market while preserving the privileged positions of insiders, the challenge now was shoring up German employment and protecting the export-based engines of German economic power.

When the government turned to Keynesianism, it did so with significant reluctance and in ways that seemed to conform to conventional images of German frugality and caution. In January 2008, the so-called *Konjunkturpaket I* ('Economic Conditions Package I'), allocated a mere €12 billion (0.25% of GDP). This apparent reluctance was not dictated by the fiscal situation in Germany, which was among the few advanced countries with a balanced budget in 2008. Nor was it consistent with prevailing economic conditions in the country, which suffered a precipitous collapse in GDP (−5.15% in 2009, compared to −3.15% in France) (OECD 2014). As one official of Germany's leading business association observed, the government was eager 'to maintain distance from [an impression of] demand management', leading to a certain 'helplessness' in the face of the crisis (interview, official, Bundesverband der Deutschen Industrie, Berlin, 30 June 2011).

Such images were belied by the full scope of Germany's response, however. Authorities were squarely focused on the labour-market implications of the crisis and particularly its effects on exports; as a result, they would focus their efforts on subsidizing workers and employers in skilled, export-intensive sectors, thereby further deepening the insider–outsider divide that the Hartz IV reforms had helped to consolidate. After sharp internal debate,[9] the government announced a second package (*Konjunkturpaket II*) in February 2009. This more generous legislation involved €50 billion in spending and tax cuts, totalling about 1.4% of GDP. The measure surprised many, with one SPD official calling it 'an incredible change in direction' (interview, J. Brahmst, Berlin, 31 May 2011). Chancellor Angela Merkel emphasized boosting the performance of core export firms, rather than compensating failing ones: 'We are creating a fund in order to extend support to essentially healthy firms in their hour of need' (Berliner Morgenpost 2009). Between 2008 and 2010, the measures amounted to €82.37 billion (about 4.0% of GDP) (Leifels et al. 2009). Both packages reflected a focus on core groups, including large firms in competitive export markets and the export-oriented *Mittelstand*. While the first package focused on tax cuts, the second involved more direct spending. Though the government aimed to convey the impression of maintaining its distance from demand-management strategies, it was willing to adopt such a strategy in practice so long as it eased pressures on key social groups (interview, official, Deutsche Gewerkschaftsbund, Berlin, 21 June 2011), notably industrial firms and workers in export-intensive sectors. In September 2009, the newly elected coalition of the CDU-CSU and the liberal FDP enacted the 'Economic Growth Acceleration Act', which entailed further tax cuts, child benefits, and labour-market spending. The tax cuts amounted to

[9] This hesitation stemmed from conflict between the Labour Ministry, which favoured a robust response, and the Finance Ministry, which wanted to rely on existing automatic stabilizers (interview, official, Bundesministerium für Arbeit und Soziales, Berlin, 20 July 2015).

€2.4 billion annually for companies, while boosting child benefits by €4.6 billion annually, thereby subsidizing the families with children that had long been central to the Social Market Economy and key constituents of the German centre-Right. Ultimately, Germany adopted the largest fiscal stimulus of all major European countries and the fifth largest (tied with Korea) among G-20 nations (Jha 2009). In 2009, its total stimulus amounted to about $130.4 billion, or 3.4% of GDP, nearly five times as large as France's (Prasad and Sorkin 2009). Altogether, German stimulus spending between 2008 and 2010 amounted to roughly 4.0% of GDP (ILO 2010: 33). German frugality and largesse, it seemed, were contextually specific.

This narrative dovetailed with the measure's other major component: an extension of the *Kurzarbeit* programme, which had been used liberally after reunification. This scheme allowed at-risk workers to work fewer hours while receiving up to 90% of their previous pay, thereby avoiding layoffs and the expensive and time-consuming prospect of retraining highly skilled workers when the economy recovers. By early 2009, more than 700,000 workers, or about 20% of the workforce, were participating in the export-reliant metalworking sector alone (Der Tagesspiegel 2009). A report by the Federal Labour Office made clear the program's central purpose: 'Since the end of 2008, predominantly export-oriented firms have increased their use of the [*Kurzarbeit*] program, in order to adjust their labour forces to the decline in international demand stemming from the international crisis, in order to preserve positions'. The program was used far more in the Western *Länder*, where export-intensive manufacturing is more extensive, than in the East, despite much higher rates of unemployment there (Schwengler and Loibl 2010: 4, 6). At its peak in early 2010, about 1.5 million workers were enrolled, and it saved about 220,000 jobs in 2008 and 2009, resulting in a 0.75% decline in the national unemployment rate (OECD 2010: 71, 74).

In 2010, the European debt crisis and domestic criticism about the country's debt led Germany to undertake a partial reversal of its Keynesian policies, which likewise bore the imprint of the corporate liberal tradition. The government adopted €80 billion in budget cuts by 2014 in a move toward the elimination of 'structural' debt by 2016, as required by a recent constitutional amendment. At the same time, the so-called *Sparpaket* avoided cuts to education, infrastructure investment, and research, all critical for long-term economic growth (Economist 2010). It also sheltered many of the same groups that had benefited from the stimulus, for example leaving unemployment benefits untouched and maintaining funding for the *Kurzarbeit* program. These modest cuts (amounting to less than 1% of GDP over 4 years) also placed a disproportionate burden on outsiders, particularly the unincorporated poor. Michael Sommer, head of Germany's leading union federation, agreed: 'They want to hit the poor and protect the big fish' (Boyes 2010). Just as Germany's stimulus was more extensive than it appeared, the subsequent reversal was less dramatic, and less universalistic, than the rhetoric suggested. Criticized by some as a 'fetish' (Meichtry 2015), the public commitment to a balanced budget seemed to return Germany's to fiscal rectitude while obscuring the deeply embedded fiscal commitments to the core groups of the Social Market Economy.

As in the French case, then, understanding Germany's response to the economic crisis requires situating it within the country's liberal tradition. Expressed in an emphasis on an organic, quasi-pluralistic social order, German corporate liberalism encourages a state that is nurturing, reluctant to intervene aggressively, and generally respectful of group prerogatives. In the words of one Finance Ministry official, this tradition stems from and reflects the strength of 'groups that represent particular interests' and 'develop their goals collectively' (Interview, Berlin, 30 July 2015), goals that are respected and pursued by the state, even when it is willing to confront their political representatives.

Conclusion: national liberalisms and political-economic adjustment in a neoliberal era

This article has analysed political-economic adjustment in France and Germany to two periods of economic upheaval and uncertainty. It has made three distinctive but inter-related theoretical and empirical claims. First, it has argued that in France and Germany, where (as in much of Continental Europe) neoliberalism remains a marginal political discourse, nationally distinctive liberal traditions have shaped the dynamics of adjustment. Though these traditions have largely rejected neoliberal agendas of expansive market making and assaults on the welfare state, they have nonetheless shaped policy in identifiably liberal ways, informed by older conceptions of limits on state action and the relationship between state and society. In both countries, these nationally distinctive sets of liberal ideas have informed policy trajectories in ways that display surprising degrees of continuity across economic and partisan contexts. The events described here thus remind us that liberalism, far from the exclusive province of post-1970s neoliberals, is actually an older and richer set of political traditions which reflect commitments to limits on state power and the economic rights and political prerogatives of particular sets of social actors.

Second, the article has shown that such national liberal traditions provide conceptual reservoirs and menus of options for policymakers confronting periods of heightened economic uncertainty. Although such frames of reference might have shaped the creation of policy and institutional regimes during earlier moments of openness and change, they also transcend them in important ways. They cannot be reduced to mere analogues to existing institutional models, which after all represent only one possible set of arrangements that such frames imply, and indeed grew out of them during the process of post-war reconstruction. When economic circumstances place such arrangements under sustained challenge, authorities often turn to older assumptions about the state, society, and the economy, as they are forced to rethink many of the core institutional and policy commitments of their political economies.

Third, this article has suggested that addressing some of the limitations of traditional institutionalist approaches requires taking ideas seriously as drivers of policy and institutional outcomes. One of the most important contributions of post-1970s historical-institutionalist scholarship was its attention to durable diversity in national institutional configurations. That said, the attention of such work to institutional stability over time undermined its ability to explain departures from the dynamics that formal institutional distributions of authority imply. The periods of crisis and uncertainty described here represent just such episodes, during which élites' interpretations of the character of economic challenges and the appropriate responses to them become central to shaping policy outcomes that transcend economic, institutional, and partisan contexts. The implications of these theoretical claims go beyond the relatively narrow policy domains of fiscal and labour-market policy, and beyond the geographical delimitations of the European continent. At a time when liberal politics has come under sustained challenge, in Europe with the rise of anti-systemic parties of the far Left and far Right, and in the USA with the election of Donald Trump as president and the xenophobic and racialized appeals on which he has relied, liberal economics, with its commitment to a market-based economic order, seems firmly entrenched in much of the advanced industrial world. That said, as this article has argued, national liberal traditions have informed distinctive variations on this common theme in ways that give ample reason to question claims of neoliberal hegemony. Furthermore, recent experiences in Western Europe, where liberal democracies have so far withstood challenges from anti-systemic populist movements while preserving generous welfare states and other non-market arrangements, suggest that the Continent might have lessons to offer to countries, like the USA and post-Brexit Britain, where neoliberalism and democracy seem to be less well reconciled to one another and, in the long run, perhaps even mutually inconsistent.

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Mark I. Vail is an Associate Professor in the Department of Political Science and a Faculty Fellow at the Murphy Institute of Political Economy. His research focuses on the comparative political economy of advanced industrial countries, with a particular focus on social and economic policy in Western Europe. His first book, *Recasting Welfare Capitalism*, was published by Temple University Press in 2010, and his second, *Liberalism in Illiberal States*, was published by Oxford University Press in 2018. He has published work in the *European Journal of Political Research*, *Governance*, the *Journal of Common Market Studies*, *Comparative Politics*, and *West European Politics*, among other venues.