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## Varieties of cross-class coalitions in the politics of dualization: Insights from the case of vocational training in Germany

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MPIfG Discussion Paper 11/13

**Varieties of Cross-Class Coalitions in the Politics of Dualization**  
Insights from the Case of Vocational Training in Germany

Marius R. Busemeyer



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## Abstract

The literature notes an increasing trend towards labor market stratification and dualization in coordinated market economies such as Germany. Labor market insiders and insider-oriented cross-class coalitions are usually identified as the driving forces behind these developments. This paper adds to this perspective by identifying different varieties of cross-class coalitions. On the basis of three case studies from the field of vocational training policy in Germany, two kinds of coalitions are identified: a conservative cross-class coalition of unions and employers that is against state intrusion into the domain of firm-based training, and a segmentalist cross-class coalition of social democratic government actors and business that is promoting an incremental flexibilization of the system against union opposition. In an alternating manner, both coalitions block the large-scale change that would be the most effective in countering dualization. Hence, they tacitly support dualization by drift.

## Zusammenfassung

Die einschlägige Literatur befindet, dass in koordinierten Marktwirtschaften wie zum Beispiel Deutschland die Stratifizierung und Dualisierung von Arbeitsmärkten zunimmt. Als Triebkräfte hinter diesen Prozessen werden häufig Arbeitsmarkt-„Insider“ und auf die Interessen dieser Insider hin orientierte klassenübergreifende Koalitionen aus Arbeitgebern und Arbeitnehmern identifiziert. Dieses Papier entwickelt eine neue Perspektive auf diesen Zusammenhang, indem es zeigt, dass es unterschiedliche Variationen von klassenübergreifenden Koalitionen gibt. Auf der Grundlage von drei Fallstudien aus der deutschen Berufsbildungspolitik werden zwei Koalitionstypen identifiziert: (1) eine konservative Koalition aus Arbeitgebern und Gewerkschaften, die gegen das Eindringen des Staates und für die Bewahrung der Eigenständigkeit der betrieblichen Ausbildung eintritt; (2) eine segmentalistische Koalition aus Teilen der Arbeitgeberschaft und sozialdemokratischen Regierungsmitgliedern, die gegen den Widerstand der Gewerkschaften eine inkrementelle Flexibilisierung und Modernisierung des Systems betreibt. In wechselseitiger Weise verhindern beide Koalitionen die Durchsetzung großer Systemänderungen, obwohl diese am effektivsten wären, um dem Trend zur Dualisierung entgegenzuwirken.

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# Varieties of Cross-Class Coalitions in the Politics of Dualization: Insights from the Case of Vocational Training in Germany

## 1 Introduction: Motivation and research question

The German vocational training system has long been regarded as a successful model (Culpepper 1999; Crouch et al. 1999; Finegold/Soskice 1988; Green 2001). The strong involvement of employers in initial vocational education and training, usually in the form of workplace-based apprenticeships and embedded in a supportive institutional infrastructure of associations and public policies, promotes smooth transitions for youth from training to work and low levels of youth unemployment (Allmendinger 1989; Gangl 2003). Employers are additionally involved in the process of reforming and updating commonly accepted vocational certificates (*Ausbildungsordnungen*) in cooperation with unions and state actors, ensuring a tight fit between employers' skill demands and the content of training and thus enabling firms to excel in strategies of "diversified quality production" (Streeck 1992), as documented by the competitiveness of the German export economy in high-quality manufacturing and chemicals.

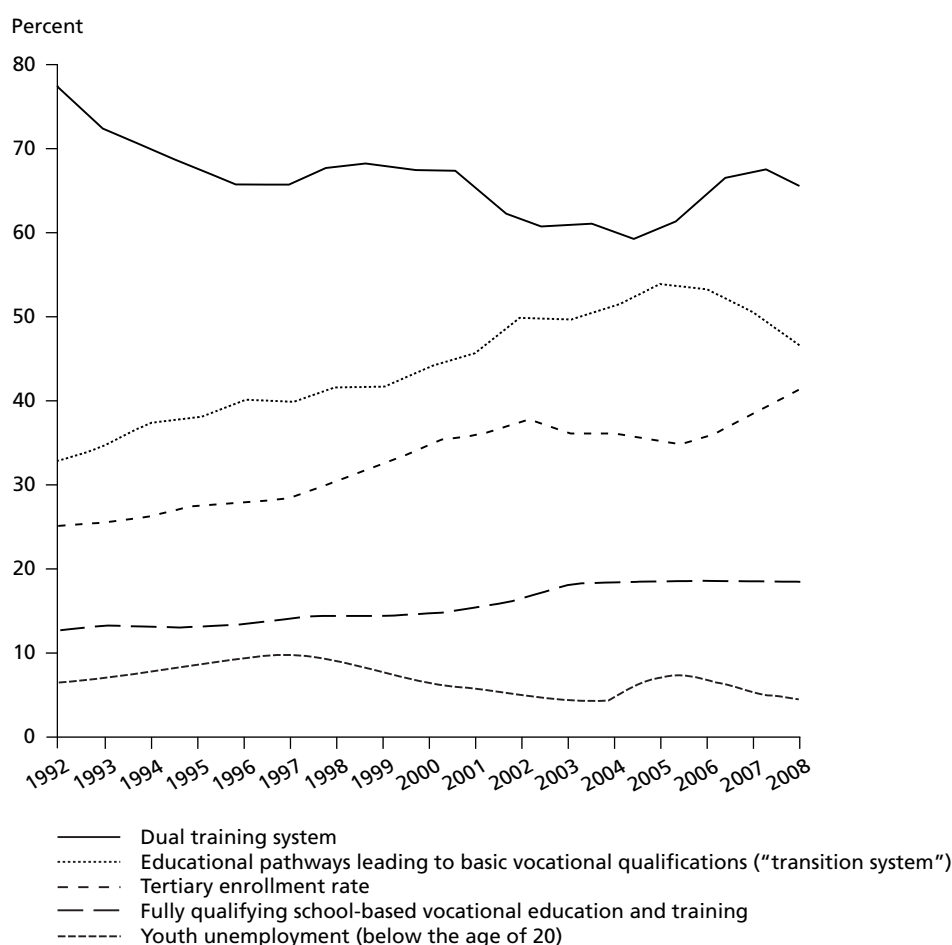
In recent years, however, the German vocational training system has come under pressure (Busemeyer 2009; Culpepper/Thelen 2008; Thelen 2007). For example, critics point to the difficulty of adapting a training system rooted in manufacturing to the needs of a service and knowledge economy (Anderson/Hassel 2007; Culpepper/Thelen 2008), the rising costs of training associated with increases in apprenticeship pay (Wagner 1999) and how workplace-based training systems such as the German one can discriminate on the basis of gender and/or migrant status (Estévez-Abe 2006, 2011). These criticisms do highlight certain weaknesses of the German training system, though some seem more relevant than others (see Busemeyer 2009: 62–77 for a more detailed discussion). With regard to the motivation for the research question addressed in this paper, the most important development in recent years has been a persistent lack of training slots and, as a consequence, the rise of the so-called "transition system" (Baethge et al. 2007).

The number of youths in need of an apprenticeship (commonly referred to as the "demand") first began to outstrip the number of training slots offered by firms (the "supply") in the 1980s, and this has intensified over the years. Figure 1 presents data on the percentage of young people pursuing various alternative educational pathways (1992 until 2008). The line at the top displays the percentage of young people who take up an apprenticeship in the dual system after leaving secondary school. The data show that

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Figure 1 Percentage of school-leavers pursuing different educational pathways



Source: BMBF (2010: 25).

this educational pathway is still the most important for the majority of young people in Germany, although the percentage of entries into university is increasing (second line from bottom). The dominance of workplace-based training is also evident if we look at the percentage of entries into full-time, school-based vocational education (fourth line from the top in Figure 1), which is slightly increasing as well, but starts from a much lower base. In contrast to the other educational pathways, the number of entries into dual apprenticeship training is declining, which corresponds to a decreasing share of firms willing to offer training slots (Busemeyer 2009: 41, 44; Thelen/Busemeyer 2008: 10–11).

The most dramatic effect of this development is the strong increase in the number of entries into the so-called "transition system" (second line from top in Figure 1). The ostensible purpose of this system is to compensate for temporary shortfalls in the market for apprenticeship training and to ease the transition from school to vocational training. Contrary to what the name suggests, however, the transition system is not a well-planned system, but a complex arrangement of more or less coordinated training

and qualification instruments (Baethge et al. 2007), whose only commonality is that they do *not* lead to certified vocational qualifications. According to surveys among apprenticeship applicants, most young people would clearly have preferred to have started an apprenticeship directly after leaving school rather than to have been pushed into the “waiting loops” or “holding patterns” of the transition system (Beicht 2009; see also Autorengruppe Bildungsberichterstattung 2008; Solga 2005). Hence the primary purpose of the “transition system” is not necessarily to ameliorate individual educational deficits, but to defuse the pressure on the apprenticeship system by channeling some of the excess demand into secondary labor markets. This process can be understood as dualization of vocational training.

When the Social Democrats came into power in 1998, a reasonable expectation was that the problem of a structural lack of training slots would be addressed more forcefully than it had been when the Christian Democrats were in power. As Figure 1 documents, the problem pressure had been building over the course of the 1990s. Also, employers’ associations had lost a significant share of their membership after German reunification, in particular among smaller firms in East Germany (Silvia/Schröder 2007). With business power in decline, problem pressure mounting, and Social Democrats in charge, there was an expectation that major reforms in vocational training were imminent.

As will be shown in greater detail in the case studies below, while the government coalition of the Social Democrats and the Greens did indeed pave the way for a major transformation of the German vocational training system, this process did not necessarily go along with a major reform of the underlying legal framework, but often developed “below the radar of national legislative politics” (Culpepper 2007: 613). Most importantly, the “transition system” continued to expand during the reign of the SPD–Green coalition. Here the rise of the “transition system” resonates very well with recent work on the “dualization” of coordinated market economies (Eichhorst/Marx 2010; Iversen 2005; King/Rueda 2008; Palier/Thelen 2010), which documents the asymmetrical impact of labor market and welfare state reforms in countries such as Germany and France. In this literature, “cross-class coalitions” (Palier/Thelen 2010: 120) between (elements of) business and labor play an important role, because in resisting the ubiquitous pressure of liberalization, they privilege the interests of labor market insiders over those of outsiders and thus – more or less inadvertently – promote the concentration of adjustment costs onto outsiders, i.e., dualization.

This paper addresses two gaps in the fledgling literature on dualization: first, as Davidsson and Nazcyk (2009: 32) note in their comprehensive review of the dualization literature: “What is missing in the literature that seeks to explain dualisation by political factors are empirical qualitative analyses of the politics of dualisation.” This paper helps to fill this gap, at least partly, by providing an in-depth case study of the crucial case of Germany, and in doing so develops new theoretical insights that should help to make sense of the politics of dualization in other countries as well. Second, the literature is quite divided on the role of government parties in the politics of dualization, especially



social democratic parties. Rueda (2006, 2007) argues that social democratic parties in government actively promote the interests of “insiders” and, as a consequence, dualization. Palier and Thelen (2010: 121), however, seem to regard social democratic parties as important counterweights to the inward-oriented policies of cross-class coalitions between employers and unions in the labor market sphere. This paper shows that both perspectives may in fact be appropriate to some extent, because we observe different “varieties of cross-class coalitions.”

Against this background, the core research question of this paper is to identify the political driving forces and coalitions behind the recent and ongoing transformation of the German vocational training regime. How did policy-makers react to the increasing problem pressure, and what was the role of economic actors in shaping these reactions? As will be explained in detail in the next section, the German vocational training system can be regarded as a “crucial case,” in the sense of Gerring (2007), that can help to assess the plausibility of different theoretical perspectives to be found in the literature. For the moment, it suffices to say that this paper seeks to investigate why a change in government from a coalition led by the business-friendly Christian Democrats to a coalition of Social Democrats and Greens did *not* stop the rise of the transition system (see Figure 1). In answering this question, the paper makes four central claims.

First, although the policy field of vocational training is characterized by a high number of veto players, which makes large-scale policy change unlikely, government parties do play a crucial role by manipulating the politics of institutional change. Partisan government actors set the policy agenda and decide which actors are to be granted access to decision-making and under what conditions.

Second, the politics of institutional change in German vocational training are characterized by complex coalitional patterns. Building on and extending the insights from the dualization literature, I argue that there are two varieties of cross-class coalitions: One is a “conservative” coalition of (large) businesses and trade unions, defending the privilege of firm-based apprenticeship training against attempts to expand school-based vocational education. The other is a “segmentalist” coalition of (large) business and (social democratic) government actors, pushing for the flexibilization of the vocational training regime against the opposition of trade unions and small and medium-sized firms in the crafts (*Handwerk*) sector. In line with Häusermann’s (2010) findings for the case of pension policies, the paper shows that the coalitional patterns are more complex than initially assumed.

Third, the common element between the various instances of reform and non-reform to be analyzed in detail below is that the associational representatives of large businesses are usually in the winning coalition (for a similar argument see Thelen/Busemeyer 2008, 2011). The paper identifies a causal mechanism for this phenomenon that highlights how both unions and state actors depend on the continued participation of employers in a collective training system that is ultimately based on the voluntary participation of

employers. However, I hasten to add that the nature of this dependence is not necessarily structural, but stems from the specific institutional setup of the German political economy, in which a weak, “semi-sovereign” central state (Katzenstein 1987) delegates significant public obligations, such as the training of young people, to corporatist actors in the form of “private interest governments” (Streeck/Schmitter 1985).

Fourth, the outcome of these processes is *dualization by drift*.<sup>1</sup> No political actor would openly promote dualization. In fact, as the case study below will show, political actors very much disagree on what would be the most adequate measures to counter the trend towards dualization. Nevertheless, by blocking certain reform attempts such as the expansion of school-based vocational education, the dominant political coalitions implicitly condone dualization (Palier/Thelen 2010: 131).

The structure of this paper differs somewhat from conventional approaches. The purpose of studying “crucial cases” is “to elucidate causal mechanisms” (Gerring 2007: 238) when the case material fits with theoretical predictions or, as in the case of this paper, to generate new theoretical hypotheses to be tested in a larger set of cases. Therefore, in the next section, I will provide a more detailed discussion on different theoretical approaches to studying processes of institutional change in contemporary political economies, which is necessary to justify the selection of German vocational training politics as a “crucial case” (Gerring 2007). Following that, three instances of reforms or reform attempts in German vocational training policy are analyzed. The subsequent section discusses the insights from the case studies and develops, in an exploratory manner, new theoretical arguments on the role of government parties and business actors in the politics of dualization. The final section offers a conclusion.

## 2 Conventional wisdom on the politics of institutional change in contemporary political economies

In the growing literature on policy and institutional change in contemporary political economies, two theoretical perspectives can be distinguished that provide concrete expectations with regard to the dominant patterns in the formation of politico-economic coalitions. Each perspective has different implications for the effects of changes in the balance of power between employers, unions, and the state: one is rooted in power resource theory, the other in the dualization and varieties of capitalism literature. In the following section, I will also explain why, on the basis of the perspective of these theories, studying the politics of institutional change in the German vocational training system can be regarded as “crucial” in the sense of the “most likely case” (Gerring 2007) and thus provide a very fruitful ground for testing competing hypotheses.

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1 I thank Kathleen Thelen for pointing this out to me.

In focusing on the role of politico-economic coalitions as driving agents of institutional and policy change, I largely follow recent work by Kathleen Thelen and associates (Hall/Thelen 2009; Mahoney/Thelen 2010; Thelen 2004; Thelen/Bussemeyer 2008, 2011). According to Thelen's approach, institutional change (via legislative policy reform or beyond) is driven forward by coalitions between economic and state actors that often run counter to the conventional left–right cleavage. Extending Thelen's coalitional approach, I pay more attention to the role of government parties and how their partisan preferences shape the strategies and positions of state actors.

The first and the older of the two perspectives mentioned above is power resource theory (Bradley et al. 2003; Korpi 1983; Stephens 1979), which regards institutions (and policies) as the outcomes of power struggles between capital and labor. The political power of the left is considered to be the decisive factor driving the expansion of welfare states and the “pacification” of capitalism in the form of corporatist institutions (Rothstein 1987). This political power strongly depends on the presence of a united working-class movement, i.e., a strong alliance between trade unions and the social democratic parties as representative of the working class within parliaments (ibid.: 306). The decline of traditionally supportive milieus in the working class has of course forced social democratic parties to appeal to new voting groups in the middle class (Kitschelt 1993), often putting strain on the traditional alliance between unions and leftist parties. Nevertheless, the central tenet of new scholarship in the tradition of power resource theory remains that the joint effect of strong unions and leftist government on the provision of working-class-friendly policies, e.g., high levels of redistribution, is much stronger than the separate effects (Bradley et al. 2003: 226). The coalitional patterns that are expected to emerge here are therefore simply a coalition of the left representing the interests of the economically weak against a coalition of the right representing the interests of business and the upper income classes.

If we apply this perspective to the politics of vocational training reform in Germany, we would expect to see a coalition of trade unions and leftist parties (Social Democrats and Greens) against a coalition of rightist parties (Christian Democrats and the liberal Free Democrats) and representatives of business. This kind of confrontational coalitional pattern was in fact observed in the 1970s, when the government led by the Social Democrats (at that time in coalition with the Free Democrats) pushed forward with an ambitious reform agenda that would have significantly extended the role of the state in the German vocational training regime. These reforms were thoroughly opposed by the opposition party, the Christian Democrats, in alliance with business representatives from both the crafts sector and large enterprises. The crucial issue in this conflict was the balance between the need to create a sufficient number of high-quality training slots on the one hand and the autonomy of firms in organizing the content and implementation of training ordinances on the other.

According to power resource theory, then, the change in government in 1998 could be expected to have led to a reemergence of the old cleavages from the 1970s and to potentially major reforms in the training system. The Social Democrats' new coalition partner, the Greens, had far fewer qualms about putting pressure on businesses to increase the number of available training slots than the Liberals had in the 1970s, and the problem pressure in the mid-1990s was much higher than before. The situation in the late 1990s can thus be considered as a "most likely" case for major policy reforms, driven forward by a reform-minded coalition of unions and social democrats.

The second theoretical perspective emphasizes the importance of cross-class coalitions between unions and employers as stabilizing factors in coordinated market economies (passim in Cusack et al. 2007; Hall/Soskice 2001; Iversen 2005). In contrast to power resource theory, this literature argues that the institutions of coordinated market economies provide concrete economic benefits for both labor and business, and are thus supported by actors on both sides. The issue of skill formation is very prominent in the varieties of capitalism school of thought. In fact, joint investments in (co-)specific human capital assets are identified as the foundation for the formation of cross-class coalitions (Cusack, Iversen and Soskice 2007). This perspective holds that employers agree to the institutionalization of certain safeguards in the form of employment and unemployment protection in order to convince workers to invest in the formation of vocational skills (Estévez-Abe/Iversen/Soskice 2001).

However, cross-class coalitions do not have to and in fact rarely do encompass whole classes. Often labor market "insiders" (e.g., skilled workers employed in large companies of export industries) enter coalitions with their particular employers and their associational representatives, whereas labor market "outsiders" (the unemployed and low-skilled) as well as small firms in the domestic crafts sector tend to be left out of these coalitions (Hassel 2007; Palier/Thelen 2010). The result of these developments is increasing labor market stratification (or dualization) or, in the words of Iversen (2005: 257): "shielded deregulation," which protects the relative position of "insiders" while "outsiders" suffer disproportionately from atypical and short-term employment, precarious jobs, and low pay. Whether social democratic government parties are actively privileging the interests of insiders, as suggested by Rueda (2006, 2007), or not (Palier/Thelen 2010: 121) is still an open question, which the present paper is an attempt to help clarify.

The application of cross-class coalition theories to the concrete subject of German vocational training politics leads to different predictions than in the case of power resource theory. First of all, these theories would expect cross-class coalitions between unions and employers to be the dominant coalitional pattern. Second, major reforms would seem unlikely, either because both business and labor do not see the need for large-scale reforms since they are already quite satisfied with the performance of the system, or because the respective "outsiders" on the periphery of the cross-class coalitions (small firms in the case of business, labor market outsiders in the case of labor) are not powerful enough to make their voices heard. Also, even if one side wishes to see

major reforms (as did the unions, for example, in the beginning of the 1980s), the other side has enough veto power to block these reform attempts, in particular if supported by state actors. This was essentially the situation in the 1980s, when unions (and Social Democrats in the opposition) were still advocating major reforms, but business and the new conservative government blocked large-scale legislative reforms and promoted cross-class compromise on the meso level instead.

The politics of institutional change in German vocational training during the reign of the SPD–Green coalition can be regarded as a “crucial” case study for the cross-class coalition perspective, just as it can for power resource theory. With Germany occupying a prominent place as a typical coordinated market economy and with vocational training supposedly the most important institutional sphere at the core of this type of economy, it is “most likely” that cross-class coalitions will continue to play a key role in the politics of training reform.

### **3 The politics of dualization in the German vocational training system**

Figure 1 above documents the increasing pressures of dualization in the German training market. The emerging gap between the supply and demand of training slots is most likely the result of structural changes in the economy, the aftermath of German reunification, and changes in the patterns of educational attainment and participation. For the purpose of the present paper, however, the crucial question is how political decision-makers *react* to this problem and how economic actors such as unions and employers’ associations (try to) influence the government’s reaction. Although the German vocational training system features very prominently in the literature, there are very few studies published in English (Culpepper/Thelen 2008; Thelen 2004, 2007; Thelen/Busemeyer 2008, 2011; Trampusch 2009, 2010) that have analyzed the political processes behind recent reforms. The following section aims to help fill this research gap by employing the method of process tracing (Hall 2006) in three “within-case studies” of recent reforms (or reform attempts) in the German vocational training system. For brevity’s sake, I draw heavily here on the findings of a longer research project studying the politics of vocational training in Germany, published in German (Busemeyer 2009), which includes the insights of semi-structured interviews with more than 25 representatives of associations and political stakeholders, conducted between 2007 and 2008.

The three cases that will be studied in the following are the introduction of two-year apprenticeships, the failed attempt to establish a training levy, and the reform of the Federal Law on Vocational Education and Training. All three instances happened during the recent period (2003 to 2005) when a coalition of Social Democrats and Greens was in government. There are two reasons this time frame was selected: first, there was a lot of reform activity during this time, reflecting the high level of problem pressure (lack of training slots) as well as the general political climate in the wake of the “Agenda

2010” reforms. From a pragmatic perspective, the cases selected were simply those instances in vocational training politics that generated a sizable amount of public attention. Second, the various flavors of insider-outsider theories outlined above expect government participation by social democrats to be associated with dualization, although the literature does not provide a lot of evidence on the exact causal mechanisms and political dynamics behind this claim. The three cases can therefore be regarded as “typical” or “representative” cases in the framework of Seawright and Gerring (2007). The main purpose of the case studies is to explore the causal mechanisms at work by analyzing the political coalitions. The selection of cases is therefore driven by the desire to maximize useful variation of the dimensions of theoretical interest (*ibid.*: 296): differences in the patterns of coalitions between political and economic actors. The guiding research questions for the case studies are: What are the political coalitions supporting and opposing reform? What are the interests of relevant political actors? What are the outcomes of the reform?

A related, but substantially different research question is to ask whether a given reform can actually be regarded as promoting dualization. It is important to distinguish between dualization by political choice and dualization by drift, that is whether policy-makers actively promote dualization through policies or whether they fail to counteract the pressure towards dualization resulting from structural changes in the labor market. Another important distinction is between the actual impact of reforms or non-reforms on the one hand and the subjective assessment of these reforms by relevant actors on the other. Governments might pass reforms in the hope of preventing dualization while in fact promoting it. Although these are important questions, it needs to be emphasized that the main focus of this paper is on *politics*, not outcomes of reforms. Nevertheless, at the beginning of each case study I will provide some information on the likely impact of the reforms under discussion.

## The reintroduction of two-year apprenticeships

Traditionally there was a strong differentiation between skilled and unskilled workers in the German vocational training system. All apprentices who successfully passed the examination at the end of their apprenticeship were certified as skilled workers. Almost all apprenticeships lasted for three or three and a half years. The proposal to reintroduce<sup>2</sup> shorter training courses would open up new access routes for youth with low skills backgrounds, who often failed to succeed in the ever more demanding regular training programs, resulting in high dropout rates (Gruber/Weber 2007). Also, the reorganization of production processes in the electric and metal industry created new demand for

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2 Two-year apprenticeships had been more important in the 1960s and 1970s, but were later phased out because of union pressure, except for some specific occupations such as shop clerk (cp. Busemeyer 2009: 99–100).



semi-skilled workers (Zeller 2007). Creating new shorter training courses could thus lead to an increase in the number of available training slots and improve labor market integration of un- or underemployed youths.

On the other hand, however, the introduction of two-year apprenticeships could also be seen as promoting the institutional stratification of the hitherto undifferentiated training system, creating a new distinction between fully skilled and semi-skilled vocational qualifications and erecting new barriers to access to the full-scale, regular training programs, in particular if the traditional apprenticeships are to be replaced by the shorter ones. Reinstating two-year apprenticeships could also have negative spillover effects into the realm of collective wage bargaining. Wage levels are often directly linked to vocational qualifications, so that creating a new semi-skilled level could promote wage dispersion.

These ambiguities cannot be fully resolved and they also depend on the actual impact of the reforms on the training system, which is still not entirely clear. The important question, from the perspective of this paper, is how the relevant actors perceived and evaluated the reform proposal.

Employers had been arguing for a greater differentiation of the system for a long time. Instead of being forced to train all apprentices for three years or longer, they lobbied for the introduction of shorter, theoretically less demanding apprenticeships in order to avoid “unnecessary” training investments (Busemeyer 2009: 120). Differentiating between different kinds of apprenticeships would also encourage a greater differentiation in collective wage agreements. As these agreements often linked pay groups to vocational qualifications, they forced employers to pay equal wages to workers independent of their actual productivity or the skill content of their respective jobs. For exactly these reasons, the unions were (and are) against creating different kinds of apprenticeships (ibid.: 119). They fear that the creation of less demanding types of apprenticeships will promote the further fragmentation of collective wage agreements.

The government coalitions of Christian Democrats and Free Democrats in the 1980s and 1990s offered rhetorical support for the employers’ demands for more differentiation within the system (ibid.: 119), but they did not act on it. This changed dramatically in 2003, when Wolfgang Clement (SPD), then Minister for Economic and Labor Affairs, decided to move forward with the introduction of two-year apprenticeships, supported by the employers (Busemeyer 2009: 161, 189).

The support for the new two-year apprenticeships was not universal across business sectors, however. Large employers in the electrical and car industries were most supportive, because they faced new demands for more specialized kinds of apprenticeships on the semi-skilled level below the level of the traditional skilled worker (Bellaire et al. 2006; Lacher 2007; Zeller 2007). In contrast, firms in the crafts sector were quite critical. These firms’ primary motivation to hire apprentices is not to secure the future supply of skilled workers, but to get access to a cheap source of semi-skilled labor (Mohrenweiser/

Backes-Gellner 2008). Because the productivity of apprentices increases during the latter stages of their training, these firms recoup a significant part of their training costs in the final third year and hence are less supportive of shorter apprenticeships. Furthermore, socialization into local and/or occupational communities is very important for crafts firms, but usually takes longer than two years. Faced with high dropout rates of apprentices unable to meet the ever-rising demands of regular training courses, the German Chambers of Industry and Commerce (Deutscher Industrie- und Handelstag, DIHK) chose to compromise by demanding more flexibility in setting the length of apprenticeship training for individual firms (DIHK 1999).

In contrast to employers, unions were strongly opposed to the new kind of less demanding apprenticeships. Unions feared this would promote training according to short-term needs and further weaken the commitment of firms to the apprenticeship system (DGB 2006: 52). They bitterly criticized the “needless” break with the tradition of the consensus principle (*ibid.*: 52), but to no avail. Another worry among the unions was that the introduction of a new kind of less demanding apprenticeship would create negative spillover effects on collective wage agreements, fragmenting them further (Busemeyer 2009: 185–186; Thelen/Busemeyer 2011). Works councils at the firm level, however, were less critical of two-year apprenticeships when faced with the alternative of hiring no apprentices. They were more willing to compromise with their respective employers in exchange for the creation of new two-year apprenticeship slots, whereas union leadership at the industry level remained adamantly opposed for political reasons (Busemeyer 2009: 190).

Because new or updated occupational profiles for recognized apprenticeships are formally ministerial decrees, the minister could act against the opposition of the unions. The repositioning of the government was therefore crucial for moving forward with the reform. The traditional role of the German federal government had been that of a “neutral broker” in the background (Hilbert et al. 1990: 52), forcing and facilitating the compromise between the social partners. Now, it intervened much more actively and also broke with the traditional consensus principle. Moreover, the social democratic government, in the person of Wolfgang Clement, was acting against the unions, the Social Democrats’ natural allies. Hence the reform was not being promoted by an insider-oriented cross-class coalition, but by a reform coalition of segments of business and government, against the opposition of the unions and, in part, the crafts sector. It needs to be emphasized, however, that there was also conflict between the traditional left wing of the SPD in the parliamentary fraction and the reformist, business-friendly wing as represented by Clement. This cleavage is most important in the case of the training levy, as is discussed in the next subsection.

Why, then, did the government decide to break with the consensus principle? As said above, the social democratic government cared more about solving the persistent problem of a lack of training slots than its predecessor. By catering to the demands of employers, the government hoped to revitalize the firms’ commitment to apprenticeship



training. A study commissioned by the government (Vogler-Ludwig et al. 2003) came to the conclusion that the introduction of less demanding types of apprenticeships would lead to the creation of a significant number of additional training slots, in particular for young persons with low skills, who already had a hard time getting access to training.

The crucial takeaway from this case study is that, in terms of political coalitions, we can observe multiple cleavages in addition to the traditional left-right cleavage that have led to complex coalitional patterns. A first cleavage runs between large export-oriented employers and small, medium-sized firms in the domestic crafts sector. A second cleavage pits local works councils against trade unions at the industry level, although this cleavage is less salient than the first one. A third cleavage can be observed within the government coalition in the form of conflicts between traditionalists on the left and reformists on the right, although these conflicts are more relevant in the case of the training levy as is discussed below.

### The failed attempt to introduce a training levy

Not long after the reintroduction of two-year apprenticeships, the government started a new attempt to solve the crisis on the apprenticeship market. In the fall of 2003, the parliamentary group of the Social Democrats presented a policy paper that argued in favor of introducing a training levy (SPD 2003). The revenues of this levy were to be used to subsidize firm-based apprenticeship training. The size of the levy would be computed for each firm separately, taking into account the costs of training and the individual firm's past and present commitment. The goal was to devise a policy instrument that would hurt most the firms that did not participate in training, while not alienating those that stayed committed to the system.

The policy instrument of collecting a levy from non-training firms to cross-subsidize training is well established in other countries such as Denmark. Although such a levy had been a long-lasting demand of the German left, it needs to be emphasized that the SPD had always tended to regard the levy as mostly a useful political tool to encourage the voluntary participation of firms in training. The renewed interest in the training levy should therefore primarily be regarded as a political signal from the left wing of the government coalition that more pressure should be put on employers to increase the number of available training slots. In contrast to previous proposals put forward during the 1980s and 1990s, however, this proposal came very close to being implemented despite the administrative complexities.

It is hard to assess the likely impact of a training levy on the apprenticeship market. In a survey conducted by the employer-friendly Cologne Institute for Economic Research (IW), only nine percent of firms said they would offer fewer training slots after the introduction of the law (Frankfurter Allgemeine Zeitung, 23 April 2004: 1). The revenues

from the training levy could have been used to subsidize training in small firms and out-of-firm training centers. The overall impact might therefore have been positive, as the Danish example suggests (Nelson 2011). In any case, the introduction of the levy would have put additional pressure on firms to provide more training slots, so its eventual failure and replacement by the weaker “training pact” (see below) can be interpreted as a failed reform to counteract dualization.

The training levy was a controversial subject within the SPD leadership (see for the following Busemeyer 2009: 151–157). Wolfgang Clement, a representative of the reformist, business-friendly wing, was adamantly opposed. Chancellor Schröder remained ambivalent, but supported the project to appeal to the left wing of the party as a compensation for the “Agenda 2010” reforms. Franz Müntefering, who was scheduled to take over the party leadership from Schröder soon, supported the levy and wanted to use it to establish himself as the new party leader. Several influential *Länder* minister-presidents of the SPD opposed the training levy, threatening to use their veto power in the upper parliamentary chamber.

The employers’ associations, in coalition with the Christian Democratic and the Free Democrats’ party, were strongly opposed to the training levy. They feared that the state would intrude into the autonomy that firms enjoyed in the area of apprenticeship training (KWB 2003). In contrast to the case of two-year apprenticeships, there was no cleavage between the different segments of business.

Surprisingly, unions did not support the project wholeheartedly either, although the introduction of a training levy had been a long-held demand of the unions (Busemeyer 2009: 154). Left-leaning unions such as the powerful IG Metall, as well as the Confederation of German Trade Unions (DGB), supported the project. The IG BCE (chemical workers), a more centrist union, opposed it. The IG BAU, representing workers from the construction industry, also opposed the levy, although the construction sector is the only sector where a training levy had already been in use since the 1980s (Streeck et al. 1987: 26). Despite the fact that the new law gave priority to existing sectoral arrangements, the IG BAU feared that a general introduction of a training levy would endanger their successful sectoral model.

Faced with strong opposition from within the government coalition, the unions, and the employers’ associations, the government decided to drop the training levy bill in the spring of 2004. Instead, it entered a “training pact” with employers (and without the unions). In this pact, which was renewed in 2007, the employers agreed to create 30,000 new apprenticeship slots every year (Ausbildungspakt 2004). Employers also committed to providing 25,000 firm-based internships per year to ease the transition into regular apprenticeship training. These internships would be subsidized by the state.

The government and employers celebrated the pact as a success. From the perspective of the government, the threat of the more intrusive training levy had revitalized the employers' commitment to apprenticeship training. The government was happy to go along with the less intrusive and more corporatist training pact instead of being forced to push forward with the unpopular levy. Employers of course preferred this alternative too. Unions were critical of the pact, but as has already been noted above, they could not bring themselves to support the training levy wholeheartedly.

How effective is the pact in solving the crisis on the apprenticeship training market, and does it promote or counteract dualization? On the one hand, the newly created instrument of special firm-based internships has become very popular in a short time. Firms have offered more internship slots than was envisaged in the pact. Research shows that these internships are more effective than other instruments of the transition system (GIB 2006). The number of new apprenticeships exceeds the obligations of the pact. On the other hand, however, these new apprenticeships are not necessarily *additional* training slots, because other firms might cease to offer training. Therefore, the creation of new apprenticeships can easily accompany a reduction in the total number of available training slots (see Figure 1). Most importantly, the pact does not entail any sanctioning mechanism. It is a political pact between business associations and the government, which of course does not directly bind individual firms.

What are the coalitional dynamics in the case of the training levy? At first, it seemed as if the traditional cleavage between a reform coalition of unions and the Social Democrats on the one hand and business and the Christian Democrats on the other would be revitalized. These were the political coalitions in the 1970s, when the introduction of a training levy had been discussed for the first time. During the process, however, a new coalitional dynamic set in, which largely reflected the fundamental conflict between "traditional" and "modernizing" forces within the Social Democratic party and trade unions at large. The reformist wing of the Social Democrats opposed the levy and pushed for the quasi-corporatist training pact with business instead. Again, unions were not part of this coalition, although it seems as if the moderate unions such as the IG BCE would also have preferred the pact to the unpopular training levy. The left-leaning unions, which supported the levy, were entirely outside of the coalition. Interestingly, the centrist IG BCE and the left-leaning IG Metall found themselves on different sides in this conflict, although both of them can be regarded as the most likely cases of unions representing the interests of insider workers from large businesses in the export-oriented sectors of the economy.

In sum, the case of the training levy shows that the coalitional dynamics in the politics of dualization are complex. This time, the rift between promoters and opponents of dualization went right through the traditional coalition of Social Democrats and unions. It seems that here general political orientation (left or centrist, traditional or modern) was more important than insider or outsider status. In the end, employers' threats to

withdraw from offering apprenticeships were most effective in priming the government to support a quasi-corporatist training pact with few strings attached instead of pushing through the unpopular training levy.

## The reform of the Vocational Education and Training Act

Despite the bitter conflict over the training levy, the reform of the Federal Vocational Education and Training Act (*Berufsbildungsgesetz – BBiG*) passed in parliament with broad support in 2005. This case shows that the coalitions behind reforms or reform proposals can change quite suddenly and differ significantly depending on the concrete issue at hand. The case study of the reform of the BBiG also adds to the previous case studies by showing that insider-oriented cross-class coalitions *can* become relevant.

The BBiG provides a regulatory and institutional framework for the dual apprenticeship system. This framework is rather loose, because, as explained above, the content of training for individual occupations is stipulated in the form of ministerial decrees and firms offer apprenticeship training on a voluntary basis. Changing the policies of the BBiG therefore has only a limited impact on the actual transformation of the system. What is more, vocational training politics is a policy field with a large number of veto players. In addition to the federal government, unions and employers' associations, the *Länder* governments have a seat at the table, because they are responsible for the school-based portions of dual training. Therefore, although it was the most significant reform in vocational training since the early 1980s, the reform of the BBiG in 2005 was widely regarded as an incremental step rather than a radical policy reform (Greinert 2005).

In spite of this, the reformed BBiG contained a number of important changes. For example, the law aimed to improve the link between the various measures of the transition system, active labor market policies, and regular training, as well as to open up the German system to international exchange. In the context of the present paper, the most important change was the decision to establish a school-based alternative track alongside firm-based training. School-based vocational education and training in Germany has traditionally been focused on professions in the health and social sectors (and dominated by young women). There was no occupational or professional overlap between the dual training system and school-based vocational education and training (VET), because policy-makers and stakeholders wanted to avoid a direct competition between school-based and firm-based training. The 2005 reform changed this situation. In order to deal with the structural crisis in the market for apprenticeships, the law envisaged the establishment of a school-based alternative track to regular dual training by admitting students of vocational schools to the final exams administered by the Chambers of Industry and Commerce. Apprentices from firm-based and school-based training schemes alike would thus end up with the same vocational qualification in the end.

The establishment of a school-based alternative track to regular dual training clearly benefits educational outsiders. A similar reform was enacted in Denmark in the early 1990s, and as a consequence of this Denmark now fares better than Germany in mitigating youth unemployment and integrating educational outsiders (Martin/Knudsen 2010; Nelson 2011). In Germany, those captured in the “holding patterns” of the transition system cannot acquire vocational qualifications with any real labor market recognition. In contrast, students in the envisaged school-based VET track would end up with the same vocational degree as regular apprentices, although the latter would probably still have an easier time moving from training to employment. As a corollary to the improvement of the position of education outsiders, the relative position of the current “insiders” would deteriorate. This is most evident when looking at the policy positions of relevant stakeholders: the state, employers and unions.

The state’s policy position was determined when the Christian Democrats sided with the government coalition of Social Democrats and Greens in supporting the bill. Although the law contained the previously mentioned proposal to establish a school-based alternative track, the accompanying statement by the parliamentary groups proclaimed that the purpose of the law was to “stop the trend of strengthening the role of the state [*Verstaatlichung*] in vocational training” (Fraktionen 2004: 3; translation by the author). This paradoxical statement shows that policy-makers were not aiming for a full-scale transformation of the system along Danish lines. Instead, the establishment of a school-based track was supposed to be a temporary measure to ease the pressure on the market for apprenticeships, and the relevant provision in the law contained a sunset clause: it was scheduled to run out in 2011.

Employers were openly opposed to establishing the school-based alternative track. They feared it would strengthen the role of vocational schools and the state in general in vocational training and enhance the competition between school-based and firm-based training schemes, which would eventually have a negative impact on the autonomy of training firms and their willingness to participate in apprenticeship training (Esser 2006). In contrast to their behavior in the previously discussed cases, here most unions sided with the employers in their opposition against the school-based alternative track (DGB 2004: 6). From the unions’ perspective, dual training was superior to school-based VET in integrating young people into the labor market (DGB 2003: 2; IG BCE 2007: 37–38). Only the GEW (*Gewerkschaft Erziehung und Wissenschaft*) – the teachers’ union – supported the expansion of school-based training (Kreft 2006: 259).

Unions and employers’ associations also worked together to slow down the implementation of the school-based training provision. During the decision-making process, unions and employers successfully demanded that they be strongly involved in deciding which school-based training schemes would be accredited (DGB 2005: 6; Kremer 2006: 15). School-based VET falls into the domain of the German *Länder*, or federal states, and decisions on it must therefore be made separately for each *Land*, which

amplifies the veto power of the social partners. Because the school provision is set to run out in 2011, it is highly unlikely that it will lead to a systematic transformation that would establish a viable school-based track.

In sum, the case of the reform of the BBiG shows that insider-oriented cross-class coalitions are also an important element in the politics of dualization. A coalition between the majority of unions and employers' associations has effectively blocked the implementation of a policy reform that would have benefited educational outsiders. State actors of various political stripes, however, have implicitly supported this coalition. They only showed half-hearted support for the establishment of a school-based alternative track in the first place, signaling early on that a full-scale transformation of the system was not intended.

#### 4 Discussion

This section summarizes and generalizes the insights of the case studies in order to compare the case-study evidence to the predictions of the two conventional theories on policy and institutional change in contemporary political economies, as they were depicted in the second section of this paper. At first glance, both theoretical perspectives fail to fully explain the developments observed in the case studies, although the case of vocational training in Germany can be regarded as a "most likely" case for both theories. The traditional political pattern of left vs. right cannot be observed in most cases. Cross-class coalitions prevail, but if we expand on the insights of the dualization literature we find different *varieties* of cross-class coalitions. In terms of outcomes, we see neither stability (as could be expected from the varieties of capitalism perspective) nor major reform (as implied in the power resource framework). Instead, we notice a pattern of incremental, transformative change (see Busemeyer 2009; Thelen/Busemeyer 2008, 2011; Trampusch 2008, 2009, 2010 for details).

The following section therefore seeks to develop new theoretical perspectives on the role of government parties and economic actors in the politics of dualization. I structure the discussion around four general topics: first, the role of government parties in the politics of institutional change; second, coalitional patterns in the politics of training reform; third, the role of business; and fourth, the eventual outcome of the reform period and what it means with regard to dualization.



## The role of government parties in the politics of institutional change

Large-scale policy change is unlikely in the German political system in general, because the system is characterized by a high number of institutional and partisan veto players (Schmidt 2001). This statement is particularly true in the case of vocational training policy, because here the federalist and the corporatist decision-making arenas intersect. The *Länder* are responsible for the school-based part of dual training, whereas the federal government, negotiating with the corporatist actors, is responsible for the firm-based part (Busemeyer 2009: 78–79). The regulatory framework of firm-based vocational training in the form of the BBiG is meant to be loose in order to encourage the voluntary participation of firms in apprenticeship training. This limits the government's ability to instigate institutional change by means of changing the policy framework of dual training: first of all, multiple veto players with high stakes in the system will want to and be able to prevent large-scale change. Second, the real effect of policy changes on the institutions of the vocational training framework is less direct and immediate than it is in the case of highly centralized and statist education and training systems.

In spite of this, political parties in government can influence the direction and extent of change by manipulating the *politics* of institutional change (Pierson 2005: 37–39). In this process policy makers act as institutional *gardeners*<sup>3</sup> rather than institutional entrepreneurs. But even though “parchment” rules (Hall/Thelen 2009: 18) – formalized policies and institutional regulations – form the backbone of the kind of socioeconomic institutions that are studied here, institutions should be conceived as living entities. The actual implementation of these rules and the real effects they have on the behavior of actors depends very much on the institutional ecology that emerges and supports the formal backbone. Governmental actors cannot be institutional entrepreneurs in the same sense that firms or other economic actors are, because unlike these non-state actors, they wield the legitimate power of collective decision-making (Mayntz/Scharpf 1995), even if the actual leeway for using this power may be limited in specific cases by political institutions.

Policy-makers as institutional gardeners may be (partly) aware of the importance of the institutional ecology of socioeconomic institutions and voluntarily limit the extent to which they wield the “hedge trimmers.” This mechanism can be observed at various points in time in the recent history of vocational training in Germany. In the mid-1970s, for example, the social-liberal government refrained from implementing far-reaching reforms that would have severely constrained the autonomy of firms in firm-based training, because they faced what in their view were credible threats by business to withdraw from firm-based apprenticeship training altogether.

As institutional gardeners, state actors and government parties have a privileged position, particularly in corporatist decision-making arenas (Mayntz/Scharpf 1995; Scharpf 1997: ch. 9). Since they have the ultimate legitimate responsibility for policy-making,

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3 This idea is very much inspired by discussions I had with Wolfgang Streeck.

they can identify priorities and instigate change by launching reform processes (*agenda-setting*); the problem of a structural lack of training slots was indeed set on the agenda more forcefully when the coalition of Social Democrats and Greens came into power in 1998. Perhaps more important than their agenda-setting function, however, is how state actors define their role within corporatist decision-making arenas. In corporatist settings like the German training system, a significant share of public obligations is delegated to private actors. Because government actors are the ultimate arbiters, however, they can choose to reconfigure the relationship between state actors and social partners, such as how much of these public obligations they delegate to corporatist actors. The Christian Democratic governments of the 1980s and 1990s, for example, took a very reluctant approach, granting corporatist actors plenty of leeway on training reform despite the increasing need to modernize apprenticeship training. The SPD-Green government, in contrast, intervened much more actively.

Another way state actors shape corporatist politics is to grant privileged access to one coalition of actors or another, thereby modifying the political conditions for institutional change. The classic configurations can be found in the 1970s and 1980s, when unions joined Social Democrats in a reform coalition and business representatives sided with the Christian Democrats to defend the autonomy of firms. The case studies on the recent history of vocational training politics show that the “classic” configurations are by no means the only ones possible. It should be emphasized, however, that political parties remain partisan actors in their manipulation of the politics of institutional change, in that their selective granting or denying of access to policy-making is of course motivated by their strategic desire to cater to their political constituencies.

### Coalitional patterns in the politics of training reform

The case studies have shown that coalitional patterns in the politics of training reform in Germany are complex and characterized by multiple, cross-cutting, and intersecting cleavages, which can be activated or not depending very much on the policy in question. Indeed, the traditional left-right pattern (business vs. labor) depicted in classical power resource theory can hardly be found, which stands in contrast to the 1970s, when this pattern was clearly dominant (Busemeyer 2009: 79–96).

Theoretical approaches in the tradition of the varieties of capitalism approach that emphasize the importance of cross-class coalitions are better suited to explain the observed developments. However, the case studies have shown that there are different kinds of cross-class coalitions, two general kinds of which we can identify.

The first of these is a “conservative” cross-class coalition between unions and employers, which comes closest to the kind of insider-oriented cross-class coalitions prominent in the dualization literature (Hassel 2007; Palier/Thelen 2010). This type of coalition was



very prominent in the case of the reform of the BBiG. In this case, unions and employers jointly opposed attempts to open up access for students in vocational schools to vocational training exams in the Chambers, because they feared a direct competition between firm-based and school-based vocational education and a devaluation of the training certificate. In contrast to the other cases, no strong cleavages could be observed within the respective camps of business and labor, with the exception of the teachers' union (GEW), which favored expanding school-based vocational education. The cross-class coalition also included elements of the political parties. The law was passed with the broad support of the government coalition and some of the opposition party (the CDU/CSU). Although the law contained the provision to establish a school-based alternative track, the accompanying text signaled skepticism amongst the sponsoring parties with regard to expanding the role of the state. The specifics of the law then allowed the social partners to effectively block the actual implementation of this provision. The conservative cross-class coalition thus aims to maintain the status quo, i.e., the privilege of firm-based training over alternatives such as school-based vocational education.

A second kind of cross-class coalition can be called the "segmentalist" coalition (see also Thelen/Busemeyer 2008, 2011; Trampusch 2008, 2009, 2010). In contrast to the conservative coalition, this kind of cross-class coalition aims for (cautious) reform and transformation of the system by making it more flexible and better suited to the needs of training firms, e.g., by reintroducing two-year apprenticeships, increasing the leeway for individual firms in implementing training regulations and administering exams, and maintaining the autonomy of firms in providing and financing training. The segmentalist coalition in the case study was made up of government actors (mainly, but not solely, from the reformist wing of the Social Democratic party) and business representatives. Thus it is a form of cross-class coalition, although it is biased in favor of the interests of business. The interests of large, export-oriented businesses featured more prominently in this coalition, with the BDA (Confederation of German Employer Organizations) and the other associations that represent the interests of the export industry (such as Gesamtmetall, the employers in the metalworking industry, or the ZVEI, the employers in the electronics industry) playing a leading role. Small firms, in particular those in the crafts sector and represented by the ZDH, tended to be closer to the unions in their defense of the traditional system against a more flexibilized, segmentalist variety (Thelen/Busemeyer 2011). The Chambers' chief organization (DIHK) tried to mediate between the diverging interests within the business community. The segmentalist coalition was pitted against a coalition of "traditionalists," consisting of labor unions (with IG Metall and ver.di, the service union, as well as the DGB leading the field) and, to some extent, the left wing of the Social Democratic party, although the latter remained politically ineffective during the time period studied. This coalitional pattern was most obvious in the cases of the training levy and the two-year apprenticeships.

## The role of business in training reform

The common element between the three within-case studies and the associated coalitional patterns is that the interests representing medium-sized and large businesses in the export economy are part of the dominant political coalition. This observation fits very well with the general focus of the German political economy on export industries (Hassel 2007; Thelen/Wijnbergen 2003). The puzzle that requires explanation is why unions (in the case of the “conservative” cross-class coalition) and a social democratic government (in the case of the “segmentalist” pattern) decided to side with business, often ending up pitted against their natural allies.

My argument is that, in different coalitions and by different means, both social democrats in government and unions try to maintain the business sector’s commitment to the apprenticeship system. Certainly firms also offer apprenticeship opportunities because they benefit from investments in vocational training (Hassel 2007). However, the fact that firms also benefit from arrangements of collective skill formation (Busemeyer/Trampusch 2011) does not in itself ensure their continued political sustainability, because individual firms always have an incentive to break out of existing institutions, even though such institutions might be beneficial to employers as a whole in the long term (Streeck 2009; see also Streeck 1992). Also, while employers are unwilling to abolish the vocational training system altogether, they do have an interest in “optimizing” the system’s institutional setup. Therefore business actors, while maintaining their general commitment to apprenticeship training, are interested in transforming the institutional framework in such a way as to bring the training system closer in line with the individual needs of the training firms (Hassel 2007). This can be interpreted as an attempt to renegotiate the institutional settlement of the neocorporatist compromise. The goal is not to abolish the institutional framework altogether, but to get rid of those institutional impositions that do not provide economic benefits.

The paradoxical finding from the case studies (see also Thelen/Busemeyer 2008, 2011; Trampusch 2008, 2009, 2010) is that the influence of business actors, in particular the large firms in the export-oriented core of the economy, is growing while the problems in the training market are becoming increasingly urgent. From the perspective of power resource theory and based on the experience of the 1970s, unions and the SPD-Green coalition could have been expected to enter into a reform coalition against business to initiate large-scale reforms. But the opposite happened: the associational representatives of the export economy have become the formateurs of a variety of cross-class coalitions, siding with unions in defending the superiority of firm-based training in the case of the BBiG reform and siding with the government against the unions in order to initiate an incremental flexibilization of the system.

One part of the explanation for these coalition patterns has to do with the specific institutional setup of the German vocational training system, which is based on the principle of voluntary participation by individual firms. The number of available train-

ing slots cannot be set by government actors, as in statist or school-based education systems. Instead, policy-makers depend on the willingness of firms to offer a sufficient number of training slots and they try to provide the right incentives to enhance this willingness. Unions cannot force firms to offer training either. Even works councils cannot force their employers to hire apprentices; they can only make it harder for employers to fire workers already employed in the firm.

The state and the unions thus have a fundamental dependence on the cooperation of business in one concrete case: the provision of a sufficient number of training slots. This dependence is not structural, but politically constructed.<sup>4</sup> It is directly related to the specific “institutionalization of the class conflict” (Rothstein 1987), in the form of the neo-corporatist institutions that emerged in the wake of the political struggles over the reform of vocational training in the 1970s, when transforming the firm-oriented training system into a more statist variety reminiscent of Scandinavian education systems had been a real option. The important outcome of these struggles was the recognition of the principle of firms’ autonomy in training decisions as an important pillar of the emerging neocorporatist compromise. Unions accepted the autonomy for firms that came out of the neo-corporatist deal as a “second best” outcome, after the ambitious reforms of the 1970s had failed and a change in government from the Social Democrats to the Christian Democrats in 1982 made further large-scale reforms unlikely. In contrast to other countries such as Switzerland and Japan, where the role of unions in vocational training was already marginalized, German unions were still powerful enough to exercise considerable veto power at the industrial and the firm level. Unions were powerful enough to gain full integration into the corporatist institutional framework that was set up to make regular updates and reforms to the set of ordinances that regulated the specific content of vocational training (*Ausbildungsordnungen*). The government promoted and supported cross-class compromise. State actors remained “neutral brokers” in the background, facilitating and supporting the emergence of consensual solutions (Streeck et al. 1987; Hilbert et al. 1990: 52).

The neocorporatist compromise of the early 1980s provided concrete benefits for all concerned. However, these positive effects as such were not sufficient to ensure the long-term political sustainability of the system. As is argued by Hall and Thelen (2009: 11), “the institutions and practices of capitalist political economies can rarely be sustained over time without the active support of at least some powerful segments of capital.” Socioeconomic institutions such as training regimes are not “self-reinforcing” (Greif/Laitin 2004). Instead, they reflect the distribution of power between business, labor, and the state, as well as between different fractions of capital. Changes in the balance of power are therefore likely to have an effect on institutions. Of course, this is

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4 Here, my argument differs from structuralist accounts such as Lindblom’s (1977). Lindblom claims that business has a structurally “privileged position” in capitalist and democratic economies, because it cannot be forced to invest and hire workers but must be induced to do so. My argument also emphasizes that governments try to induce firms to provide apprenticeship training. The crucial difference, however, is that the government’s dependence on the willingness of business to provide training is not structural or functional, but politically constructed (and thus reversible).

not a simple and smooth transition mechanism. Because of path dependencies, institutions may continue to grant veto power to actors whose power has deteriorated since the time the institutional compromise was decided upon. Those actors whose power position has improved since then strive to renegotiate the terms of the deal.

In the case of vocational training (and industrial relations more generally), the last decades have witnessed a shift in the balance of power from labor to capital with important consequences for the transformation of training regimes. The rise in business power is often attributed to exogenous forces such as globalization, but it also has a collective, i.e., associational dimension that is often overlooked. Firms decide individually whether they want to participate in training, but they are embedded in a network of socioeconomic institutions, obligations, and employers' associations. Employers' associations, however, are less able to enforce their individual members' compliance with collective concerns, such as the provision of a sufficient number of training slots, because the associations themselves are in a process of erosion. Firms cannot be forced to provide training – neither by unions, the state, nor employers' associations – without this fundamentally challenging the corporatist deal at the core of the voluntarist system. When it comes to training, firms can resort to the exit option much more easily than in other institutional policy fields (such as labor-market or welfare-state policies). They do not have to move production to distant countries; they simply have to stop offering apprenticeship training (or threaten to do so). Paradoxically, the more firms drop out of the system, the more government actors will be willing to succumb to the demands of employers' associations to keep the remaining firms in. Employers' associations thus become more successful in lobbying for a transformation of the regulatory framework when their ability to enforce collective obligations erodes. In this sense, the organizational weakness of intermediary associations leads to political strength (Streeck 1992).

The relative increase of business power has contributed to a transformation of corporatism (Traxler 2004). The neocorporatist arrangements of the 1970s and 1980s have been largely understood as an attempt by labor and state actors to tame the power of business (Rothstein 1987). More and more, these arrangements are becoming instruments to incorporate elements of labor interests into new forms of “competitive corporatism” (Molina/Rhodes 2002), i.e., to mitigate the opposition of labor against deregulation and welfare state retrenchment. Indeed, new forms of corporatism have become “leaner” (Traxler 2004) and oriented more towards maintaining competitiveness than expanding the welfare state (Molina/Rhodes 2002). The crucial insight of my case studies, however, is that the balance of power between business, labor, and the state *within* corporatist arrangements can change over time. New forms of corporatism “without labor” (see Pempel/Tsunekawa 1979 for the well-known case of Japan) or with weak labor can be equally or, as argued by Crouch (1993: 44), even more sustainable than social democratic varieties of neocorporatism.

If this depiction of the role of business, labor, and state actors is correct, then the insider-oriented cross-class coalitions, tolerated and tacitly supported by the state, should be regarded as a reflection of the simple fact that the political sustainability of corporatist compromises depends on the willingness of unions and the state to sacrifice some of their positions in order to maintain firms' commitment to hold up the business part of the deal. Thus even in those cases where unions have been found to be part of insider-oriented cross-class alliances, this could simply reflect the choice of a "second best" strategy on the part of unions.

The rising power of business actors makes them more assertive in their attempts to get rid of social and political obligations imposed on them as part of the neocorporatist deal. The case studies have shown how business actors, supported by the government, aim to transform the regulatory framework of the vocational training system in order to bring it closer in line with the particularistic needs of firms who provide training. The governmental policy-makers involved have the goal (and hope) of increasing the willingness of firms to participate in apprenticeship, i.e., that they will hire more apprentices. Herein lies the core of the politically constructed dependence of government on business: Business willingness to participate in training depends on the business-friendly transformation of the regulatory framework.

### The outcome: Dualization by drift

Coming back to Figure 1, it is clear that the situation in the training market improved somewhat after the reform period (2003–2005) studied in this paper. New entrants in the transition system declined, and the number of available training slots remained stable, but at a much lower level than in the 1990s. How much of this development may be due to exogenous forces, such as the economic upswing in 2006–2007, or a declining number of school-leavers on the one hand and the effect of government reforms on the other, is hard to say. Nevertheless, it can be said that the number of young people in the transition system remains significant. According to the latest figures, more than a third of all new entrants into the vocational sector ended up in the transition system in 2008, although the economy was doing very well (Autorengruppe BIBB/Bertelsmann Stiftung 2011: 7).

The real impact of reforms or missed reform opportunities on the training system is hard to assess, but it can be said that more ambitious reforms for large-scale institutional change would have been a stronger antidote against dualization, e.g., establishing a levy-grant system whose revenues could have been used to sponsor out-of-firm training or to subsidize training in small firms, as well as to institutionalize a fully fledged school-based alternative track. These and other policies have been introduced in other countries, such as Austria and Denmark (Graf/Powell/Lassnigg 2011; Martin/Knudsen 2010; Nelson 2011), and have proven to be quite successful in fighting youth unemployment and labor market stratification.

In Germany, by contrast, the outcome can best be described as *dualization by drift*. No relevant political stakeholder would openly promote dualization, but the alternating dominance of either the conservative or the segmentalist cross-class coalition has been effective in blocking the kind of large-scale policy and institutional change that would have been (and still is, by the way) necessary to effectively counter the ongoing trend towards dualization. The conservative cross-class coalition blocked attempts to institutionalize fully fledged school-based alternatives that would probably have been more effective in countering the trend towards dualization.<sup>5</sup> The segmentalist coalition *did* promote incremental reforms, but these reforms were primarily aimed at flexibilizing the system. Although the government hoped this reformation of the training system would boost employers' willingness to increase the supply of training slots, this aspect was subordinated to the goal of "modernizing the system." Thus, in the end, I concur with Palier and Thelen (2010: 126, 131), who argue that dualization should be regarded as an unintended consequence of enhanced (or maintained) cooperation in the form of cross-class coalitions. The new element this paper brings into the debate is to show that there are different varieties of cross-class coalitions, and that the political and institutional dependence on the cooperation of business is the central causal mechanism that is driving the formation of these coalitions.

## 5 Conclusions and outlook

This paper has argued that cross-class coalitions are the dominant political force in the politics of reforming the German vocational training system. However, the case studies have shown that there are different varieties of cross-class coalitions, which I have called conservative and segmentalist cross-class coalitions. The somewhat unexpected occurrence of a social democratic government allying with business against an opposition made up of their natural allies – the unions – prompted a more thorough rethinking of the role of business in the politics of training reform. I have argued that this alliance can best be understood if one recognizes the fundamental dependence of policy-makers on the willingness and ability of firms to provide a sufficient number of training slots. This dependence is not structural, but stems from how the specific institutional setup of the German vocational training system is based on the principles of voluntarism and firm autonomy. The outcome of recent reforms is an incremental, but in the long term transformative, change of the system towards a more flexible, firm-centered variety (Thelen/Busemeyer 2008, 2011). This change, however, does not necessarily counter the trend towards dualization.

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5 However, it needs to be emphasized that the commonly held view among unions is that firm-based training is the best instrument against youth unemployment and performs much better than school-based alternatives (DGB 2004, 2006).



What are the avenues for future research? The case studies have shown clearly that governmental actors play a crucial role in promoting or counteracting dualization. But does it matter which party is in government? This paper could only partially address this issue, because I did not compare reform politics across different government periods. A preliminary answer to the debate between Rueda (2006, 2007) and Palier and Thelen (2010) on the role of social democratic parties is that these parties do indeed play an ambiguous role in the politics of dualization. The case studies have shown that social democrats do not openly promote dualization policies, but may side with insider-oriented cross-class coalitions in defense of traditional institutional setups, which results in a process of dualization by drift. What is more, the case studies have also shown that social democrats are willing to cooperate with business in reform coalitions *against* the interests of union insiders. The primary purpose of these reforms, however, was not necessarily to stop dualization but to modernize and flexibilize the system, although the government did hope for an increase in the supply of training slots as a positive side effect.

It still remains somewhat unclear whether conservative parties in government are promoting full-scale deregulation instead of shielded deregulation, or are simply advocating no deregulation at all. Both seem possible: in the first case, conservative government parties would “spread the pain” more equally across different constituencies, although such policies would of course primarily benefit their core constituencies in the upper income classes. In the second case, conservative governments might simply be failing to push through unpopular retrenchment and liberalization reforms because they now face the joint opposition of unions and social democrats. This “Nixon goes to China” logic is why Ross (2000) has argued that social democratic governments are more likely to be “successful” in welfare state retrenchment than rightist governments. Although the case studies in this paper only deal with cases occurring while the Social Democrats and Greens were in power, a general assessment of the policies during the era of Christian Democratic governments (Busemeyer 2009: 106–147) provides tentative support for the “Nixon goes to China” thesis. Various conservative governments of the 1980s and 1990s had wanted to appeal to the interests of employers, e.g., by creating shorter, less demanding types of apprenticeship, but failed to do so. Thus the willingness of the reformist social democrats in government, in particular Wolfgang Clement, to cooperate with business was crucial to promoting the incremental flexibilization and differentiation of the system.

To what extent can the findings of this paper be generalized beyond the case of vocational training? A crucial variable defining the power relationships between business, government and labor is the availability of exit options for business. In the case of vocational training, the exit option is easily available, because firms can simply stop hiring apprentices; they do not have to move production to distant countries. Therefore the government is highly willing to provide incentives to businesses to keep them within the system. In other policy fields, of course, the exit option may not be as easily available as in the case of vocational training. But, undoubtedly, structural changes over the last decade such as globalization and Europeanization have made it much more available

than before. The basic mechanism identified in this paper for the field of vocational training should also be applicable in other policy areas. For example, the coalitional dynamics that Häusermann (2010) finds in the case of pension policy are very similar to the ones identified in this paper. Future research on the politics of dualization should therefore pay more attention to the role of business actors and variations in the formation of cross-class coalitions in particular.

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