

# **Decentralized Cooperation and the Future of Regulatory Reform**

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## Abstract

Faced with the fact of sweeping regulatory reform, how do companies decide how to respond to a new set of policies? This paper argues that this problem requires a new conception of policymaking: a conception that recognizes the analytical primacy of achieving coordination under uncertainty. I call this challenge the problem of securing decentralized cooperation. Negotiated reforms are a common *leitmotif* of the current wave of reforms taking place in various European countries, whereas American attempts to reinvent government opt to replace the state with the market. There are general lessons in this approach for both strategies. Unlike the earlier attempts to establish neo-corporatist bargains at the national level in European countries, the success of bargained pacts in Europe will depend increasingly on allowing private actors to design the best solutions to centrally identified problems. The challenges of bringing private information to bear on public policy will increase in the future, and not only in supply-side economic policy reforms. One such area is environmental regulation, which is typically viewed as an area of pure state regulation. This is also an area where market-based solutions are frequently proposed as the most efficient solution to problems of pollution. As I demonstrate through the initiative of the Chesapeake Bay Program in the United States, the challenges identified above for areas of economic policymaking are now relevant to environmental initiatives, even in liberal market economies such as the US and the UK. The extent of government success in such initiatives will be determined by the ability of governments to understand the importance of private information and their capacity to develop private sector institutions that can help procure it. Attempts to replace a malfunctioning state with a market solution, currently very much in vogue in certain quarters in the United States, will fail, as long as they do not recognize the distinctive problems inherent in securing decentralized cooperation.

Governments in France and Germany have taken on a challenge for which the tools of past policymaking are inadequate. The goal of creating cooperation among companies has not proven amenable to solution through either the raw exercise of state punitive power or the lavish but indiscriminate use of state spending. Financial sanctions have been adopted in France, and periodically threatened in Germany, but the existence or threat of a training tax has not compelled companies to coordinate around a high-skill equilibrium. Likewise, the numerous subsidies to which French and eastern German companies have easy access have largely led to the development of low-cost training schemes that are profitable for those companies in the short-term, but which fail to convince them to invest heavily over the long-term in the general skills of their workforces. And that, after all, was the whole point of the training reforms.

What these governments have discovered is that the policies requiring decentralized cooperation pose problems that states are ill-equipped to solve. These policy problems share three core characteristics: strategic interaction, multiple equilibria, and analytic uncertainty. First, the policies aim to influence the strategic interaction of actors with potentially competing interests. In itself, this characteristic is not overly restrictive: many types of traditional regulation, such as anti-trust or competition policies, explicitly target private interaction and limit the negative consequences generated by such interaction. But what the strategic element underlines is that individuals make choices *dependent* on the choices of other individuals, whereas a traditional policy for improving skills requires no strategic interaction. Consider, for example, one of the most successful educational policies in American history: the GI Bill. This initiative radically lowered the costs for members of the armed services to attend institutions of higher education, and it consequently resulted in a massive increase in levels of educational certification. But the GI Bill, as public policy, acted purely at the individual level: the decision of one GI to take advantage of the program to attend college was completely independent of the choices of any other soldier to attend school. Not so in a problem of decentralized cooperation: the French and German training reforms depended not on the choice of any one company to invest in apprenticeship, but

on convincing a number of firms to move more or less simultaneously to invest in such training.

The element of strategic interaction underlines the second, related feature of problems of decentralized cooperation: that of coordinating behavior around one of several competing, plausible alternatives. The problem of coordination arises when there are what game theorists call multiple equilibria; in other words, in situations where there are several jointly preferred possible outcomes around which actors can coordinate their behavior. A large and a small company may both prefer the adoption of *some* standard for skill certification, such that they can better assess the skill set of potential employees when hiring them. Yet the large company prefers the standards defined by an association for large companies, whereas the small company prefers the standards set by a consortium of small employers. Each company prefers the standards set by the other association over having no standard at all, but each would rather have its own standards than that of the other guy. Depending on the strategies used, such a situation can result in the adoption of no standard, with the result that every company is then worse off. This sort of situation, far from being unusual, is widespread: “To achieve cooperation in a moderately complicated repeated game... it is necessary to make sure that all players arrive at the same expectations about which of many available equilibria they will adhere to. Nearly any interesting problem with multiple equilibria is a coordination problem” (Calvert, 1995: 243). One problem frequently posed by having a number of outcomes that are mutually preferable to other outcomes, as in the standard-setting example, is that they introduce distributive conflict (Scharpf, 1997).

Such problems of coordination are further exacerbated by the uncertainty generated by reforms premised on securing coordinated behavior. In the case of standard-setting, companies are at least able to predict with a high level of confidence what they gain from adopting each sort of certification system. As we have seen through the experiences of managers in eastern Germany and in France, it is often very difficult for actors to estimate with any certainty what they stand to gain if a cooperative move is in fact met by cooperation. The gains to apprenticeship training were not clearly apparent to some of the firms in my sample until, with the help of subsidies, they began investing in such training and retaining the young trainees as employees. When cognitive

unfamiliarity with an issue area is high, bounded rationality is likely to limit the predictive power of individual actors. When, on the contrary, results are easily predictable, there is no issue of analytic uncertainty. Redistributive tax policies, for example, involve neither strategic interaction nor analytic uncertainty: I have a pretty good idea what I will gain or lose from a change in the marginal tax rate, and my gain or loss is independent of what others do. Nuclear politics is clearly strategic, but there is not much analytic uncertainty: if my opponent launches his entire nuclear arsenal as a result of a perceived defection, the results are going to be predictably catastrophic. Decentralized cooperation combines both a strategic element with a degree of analytic uncertainty about the nature of the new payoffs to cooperation.

These, then, are the summary elements of a policy area likely to engender problems of decentralized cooperation: dependence on strategic interaction of numerous social actors; the existence of multiple potential, Pareto-improving solutions; and a high degree of analytic uncertainty. In what policy areas, specifically, are we most likely to observe such problems? The first, as has been underlined throughout this book, is economic policy, especially economic policies aimed at the supply-side of the economy. Governments of both the left and right have conceded that their most viable route to influence the shape of the economy is by changing supply-side policies that influence the decision-making of individual companies (Boix, 1998; Garrett & Lange, 1991; Hall, 1999). Facilitating investment in human capital, diffusing results of research and development through technology transfer, and building SME incubation centers are areas that raise severe issues of decentralized cooperation. In social policy, problems such as urban renewal—which depend on the coordination of investment decisions by companies, developers, and individuals—are also likely to be subject to this dynamic. Finally, diffuse environmental problems share these features. They depend on the mutual exercise of restraint by different types of companies; there are often a bewildering number of potential solutions that improve the environment, but which have different distributive consequences; and the effects of any of these choices on a given actor is often highly uncertain (Mazmanian & Kraft, 1999; Sabel, Fung, & Karkkainen, 1999). Later in this chapter I shall explore the applications of this framework to a case fraught with the

problems characteristic of the politics of decentralized cooperation: that of the Chesapeake Bay.

The rise of policy problems like these has generated different dominant responses from governments in the industrialized countries. In liberal market economies like the United States and the United Kingdom, the most prominent response has been the privatization of the functions of government, where possible, and the attempt to “reinvent government” along market models where it has not been feasible for the government to delegate its functions to a private body (Osborne & Gaebler, 1992). This choice is not surprising, given that the market is usually the best functioning mechanism for coordination in these economies, but there are good reasons to think that the market is not the ideal way to help overcome problems of decentralized cooperation, which I will explore below. The dominant strategy in the continental European countries, especially those with the institutions characteristic of coordinated market economies (Hall & Soskice, 2001), has been the negotiation of national social pacts (Hassel & Ebbinghaus, 2000; Rhodes, 1998). Such bargained pacts have offered apparent miracles of reversing unemployment and promoting economic growth by negotiating agreements between corporatist actors and the state (Visser & Hemerijck, 1997). While these deals recall the corporatist pacts of the 1970s, the easy analogy between them is misleading. In fact, as I show in the concluding section of this chapter, the contemporary politics of reform are not just (or even primarily) about exchange, but about finding a solution to tough problems which is both politically viable and technically workable. In many cases, these are problems of decentralized cooperation.

### **Private Organizations and Deliberation**

Policymakers attempting to secure decentralized cooperation are dogged by the uncertainty that these reforms engender. The crux of the problem is that the individual actors being asked to change their existing patterns of cooperation know that they have not cooperated in the past, and they know that others know this. Yet they have incomplete information about many other parameters of the situation created for them by new policies. First, actors have the obvious question of strategic uncertainty: how will

those with whom I am interacting respond to these reforms? Will they choose to cooperate if I cooperate, or will a cooperative overture be exploited? Second, they are uncertain about the ability of either public policy or private associations to play the enabling roles posited for them by reformers. Third, *even if* their cooperation is reciprocated, and *even if* the new infrastructural institutions work as advertised, actors may be skeptical whether or not this new pattern of cooperation is indeed likely to generate the benefits ascribed to it by policymakers. We know that individuals tend to weigh the possibility of loss more heavily than the possibility of an equally probable gain from changing their patterns of interaction, which underlines the cognitive distortion that stands in the way of improving the prospects of social cooperation (Fernandez & Rodrik, 1991). Actors are not only biased against future loss, but also quite boundedly rational when it comes to evaluating the gains to be had from cooperation. Unlike in the set-up in laboratory experiments, actors may genuinely be uncertain what will happen if they cooperate and their partner cooperates: what is the new payoff? This analytic uncertainty is an imposing barrier on the road to successfully building new patterns of cooperation.

Analytic uncertainty constitutes a core characteristic of the politics of decentralized cooperation, and it is in situations characterized by such uncertainty that the framework I have developed should be applicable to other reforms besides those of French and German vocational training. As I argued in the first chapter of this book, the elegant theoretical solution of sanctions lacks credibility when the sanctioning regime is part of the new institution that a government is attempting to establish. And that is the first empirical prediction that emerges from this framework when confronting a situation of decentralized cooperation: sanctions will be unsuccessful in extracting cooperation from private actors, because they will not be credible. This creates the need for some other mechanism to persuade actors of the benefits of cooperation, and it increases the value of reliable information circulation (Calvert, 1995; Ostrom, Gardner, & Walker, 1994). In the realm of the political economy, we can expect that the best candidate capable of playing this intermediary role is an employers' association or a union.<sup>1</sup>

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<sup>1</sup> In training policy, problems of employer coordination are paramount, and for that reason this book has focused on the coordinating capacity of employers' associations. Unions were less central to the problem

The information to which a private association must have access is of two sorts: technical and relational. The advantage of private interest groups in gathering technical information is not new. Studies of the American policy process have underlined the informational strengths of interest groups, which can be routine patrollers of agency implementation that Congress cannot (McCubbins & Schwartz, 1984). Likewise, those who have written about the advantages of corporatist governance have underlined the importance of the ability of groups to exercise such competence in assuming a role in policy implementation (Schmitter & Lehmbruch, 1979; Visser & Hemerijck, 1997). This technical expertise is indeed a prerequisite to successful group action in promoting decentralized cooperation, but it is subordinate in importance to relational information. Relational information concerns the cooperative propensities of actors: where do actors stand, in relation to other potential cooperators in the population, on the question of whether or not to cooperate? Associations need to have access to this information in order to target the most likely cooperators in the population in their efforts of mobilization and persuasion. The combination of technical and relational expertise allows these organizations to assist governments in designing aid that appeals disproportionately to the most likely cooperators in the population: the waverers. And convincing the waverers is the heart of the problem of decentralized cooperation.

The analytic uncertainty that prevents waverers from cooperating is the major stumbling block to the emergence of decentralized cooperation. For this reason, organizational capacity must extend beyond the mere circulation of information; it must include the ability to foster inter-firm deliberation. The importance of deliberative capacity has been argued cogently by Hall and Soskice (2001), who point out that, faced with a problem of coordination, deliberative capacity helps actors settle on a focal point that is welfare-improving.<sup>2</sup> That is correct, as far as it goes. Yet in order to understand why deliberative capacity is a prerequisite for securing decentralized cooperation, we

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of coordination, although we saw that the strength of unions was quite important in imposing constraints on employer strategies in Germany, while much less so in France.

<sup>2</sup> As noted earlier, the difficulty created by many coordination problems is that different solutions improve the welfare of some actors *more* than of others; dealing with these sorts of distributive problems is why deliberative capacity is so important to the framework developed by Hall and Soskice (2001) (cf. Scharpf 1997).



need to go beyond the insights of game theory to the realm of social psychology. The barriers to cooperation that I have identified are cognitive: a status quo bias combined with analytic uncertainty. In other words, people are afraid of trying a cooperative arrangement because they have difficulty estimating its benefits accurately. Being risk averse, they prefer to remain in a situation where they can benefit a little less, but where they know exactly what to expect. Better the devil you know than the uncertain angel. How does the capacity of an organization to facilitate deliberation affect the biases of individual members toward caution?

Successful organizations in this context can exploit a phenomenon known as group polarization.<sup>3</sup> Repeated experiments have shown that group interaction has the effect of amplifying the summation of individual opinions of members of the group. The original experiment that led to this finding, since confirmed by follow-up studies in many diverse settings, is usefully illustrative. Stoner (1961) posed to his individual subjects a number of hypothetical dilemmas like this one: “An electrical engineer may stick with his present job at modest but adequate salary, or may take a new job offering considerably more money but no long-term security.” The results, as summarized in Brown (1988), were startling:

The subjects were asked to judge the lowest acceptable level of risk for them to advise the main character in the scenario to give the riskier alternative a try.... The subjects were then randomly formed into groups and asked to reach a unanimous decision on each of the dilemmas they had considered individually. Stoner found to his surprise that these group decisions were nearly always riskier than the average of the individual group member pre-discussion decisions. These results were quickly replicated by Wallach et al. (1962), who also established that these shifts in group opinion became internalized because they reappeared when the subjects were asked once more for their individual opinions *after* the group discussion.

This finding—that group opinions magnify the leanings of the individual group members—have been reinforced through studies across a variety of fields, from how juries decide to how individuals judge physical attractiveness (Brown, 1988; Lamm & Myers, 1978; Sunstein et al., 1998).

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<sup>3</sup> This literature came to my attention as the result of a paper presented by Cass Sunstein on the incoherence of jury judgments (cf. Sunstein, Kahneman, & Schkade, 1998).

Deliberation, on its own, does not solve the primary ills of decentralized cooperation. The finding of this literature is *not* that deliberation reduces perceptions of risk in all cases. It is rather that the individual leanings of a group will be magnified through group deliberation. So groups whose average opinion is risk-seeking will make their members even more risk-seeking, and risk-averse groups will tend to heighten their members' risk aversion. Employers' associations—or organizations like them that serve similar functions in trying to secure decentralized cooperation—promote deliberation in two ways. First, in their general meetings and standing committees they promote group deliberation, but these exchanges usually concern only the broad outlines of their strategy. The key to polarizing actors in the right direction is to construct and promote deliberation among smaller sub-groups, whose members on average are likely to lean toward cooperation. That is, eliminate the confirmed defectors from the mix, while concentrating the waverers together with existing cooperators. This strategy, following the group polarization logic, is likely to promote a shift towards cooperation and away from defection, *among* the group of waverers. In other words, a cooperative attitudinal shift (polarization) should take place.

Why is that? While this is a subject of dispute among social psychologists, the prevailing view is that the exchange of information and argument among the group is a driving force in producing this polarization of opinion. Each member of the group has an argument or set of arguments for why he or she leans toward choosing cooperation. But these arguments are not all the same. As these participants exchange information and argument, those who are leaning toward cooperation discover (through this interaction) different arguments that confirm their pre-existing belief that cooperation is a strategy with long-term benefits (Brown, 1988; Burnstein & Vinokur, 1977). Since this is a group that, by design, tends to lean towards cooperation, the balance of arguments circulating through the group will favor cooperation, and thus these opinions will be reinforced.<sup>4</sup> By stacking the deck with a set of waverers and existing cooperators, this group of

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<sup>4</sup> The principal alternative explanation of the process of group polarization is that social comparison takes place: individuals observe within the group a preponderance of individuals sharing similar opinions, and are thereby reinforced in that belief that their views were correct (polarizing them). Most versions of this explanation contend that social comparison acts in concert with the persuasion/information effect associated with Burnstein and Vinokur (1977). Cf. Lamm and Myers (1978) and Brown (1988) for a further discussion.

individuals is exposed to more arguments for cooperation than against it, and their prior leanings are strongly confirmed.

In light of these findings, we can clearly see why the capacities of employers' associations have been so crucial to the account of decentralized cooperation given here. First, associations have the relational information necessary to identify the most likely cooperators, and the technical expertise required to design a program that can attract these waverers disproportionately. Second, they have the general capacity to develop such a strategy as a response to problems of cooperation, and they can promote information exchange and argumentation—i.e., deliberation—among the waverers that are attracted to begin participating. And finally, their ability to exercise the foregoing capacities allows them effectively to mobilize potential waverers. Knowing that the association has served as an effective forum for deliberation, the strategies adopted there acquire a certain legitimacy in the eyes of member firms, which can then be convinced to begin participating in cooperative arrangements. Moreover, within the small sub-groups of waverers, the association is constantly involved by providing further arguments for why cooperation has its own rewards; in other words, the association pulls the group opinions toward cooperation. For all these reasons, we can posit that the existence of an organization with capacities of information circulation, deliberation, and mobilization is the necessary condition to secure decentralized cooperation.

### *The Role of Government*

Although this argument is premised on the strong capacities of private organizations, it is not an argument for pure private interest governance (Ayres & Braithwaite, 1992; Cohen & Rogers, 1992; Streeck & Schmitter, 1985). Just as states need to develop private capacities in order to succeed in securing decentralized cooperation, private organizations will have difficulty financing experiments of cooperation on their own. The literature on private interest governance is motivated by the twin claims of greater efficiency and greater democratic legitimacy when groups self-regulate. I share with this literature a strong claim of the informational advantages of groups vis-à-vis state regulators for detailed policymaking. Where I diverge from it,

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though, is in drawing attention to features of policy design that specifically target waverers in the population, and in the implicit assumption that the resources necessary to get cooperation started, where it has not previously existed, will require that the state not disengage entirely from the process.

By way of contrast with the common pool resource (CPR) dilemmas studied by Elinor Ostrom (1990), organizational attempts to secure decentralized cooperation on their own are unlikely to succeed. The benefits are often too diffuse (as they accrue to citizens across the polity), and the start-up costs are too high. Ostrom's actors generate their own solutions especially when *not* doing so would lead to a catastrophic outcome. This is the catalyst that gets them over the status quo bias. The prospect of irretrievably losing a precious resource, like the prospect of death, concentrates the mind wonderfully. In situations of decentralized cooperation, though, failure *is* an option; it is possible to imagine muddling through with current conditions, even though general welfare would improve if decentralized cooperation could be secured.

The difference in this strategic situation alters the credibility of sanctions and the role of the state. Ostrom's actors, faced with the possible exhaustion of common pool resources, develop institutional solutions that depend for their success on the existence of graduated sanctioning mechanisms (Ostrom, 1998). If they have commonly acknowledged the problem and been involved in the design of these sanctions, they are likely to find the sanctions more credible than those accomplished in the wake of a state reform exhorting them to cooperate in the provision of a public good that does not currently exist. In the class of cases investigated by Ostrom, the state is often considered an impediment to developing successful rules for self-governance.<sup>5</sup> But, in situations characterized by the politics of decentralized cooperation, the private actors are uncertain about how others will act, uncertain about the payoffs to cooperation even if it is required, and *they are skeptical that either the state or private associations will be able to develop enforcement mechanisms in this climate of uncertainty*. Paradoxically, even though the state is usually the enforcer of last resort, the fact that the new societal

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<sup>5</sup> "Once national or regional governmental officials indicate that they consider it their responsibility to solve CPR problems, one can expect local appropriators who do not already have local institutions in place to wait for the government to handle their problems. If someone else agrees to pay the costs of supplying new institutions, it is difficult to overcome the temptation to free-ride" (Ostrom 1990: 213).

equilibrium is a goal set by the state renders the possibility of effective sanctioning even more implausible, as the capacity to sanction requires a detailed understanding of the policy area in question (which, we have seen, the state does not generally have). In the fisheries and forests studied by Ostrom, actors who themselves have local knowledge and exploit the common pool resource have set the rules, and these rules may consequently have more credibility. But in the situations studied here, sanctions will not work, because they will be neither credible nor effective.

Government is indispensable to the process of securing decentralized cooperation: it sets broad goals, limits organizational rent-seeking, and subsidizes experimental programs for convincing waverers. In almost all such cases, the most effective way for the state to intervene is to pay some of the start-up costs of waverers. To be effective, the state must structure its programs to attract waverers, not those who are unlikely to be convinced of the long-term merits of cooperation. Only if the state can design policies that attract a large enough proportion of waverers, and allow them to convince each other of the benefits to cooperation, will the behavior be able eventually to spread in the population; otherwise it will fizzle. And only states that design policy using insights available through private information—whether gleaned through collaboration with private associations or through some functional equivalent thereto—will be able to target policies to attract waverers. Conversely, state policy uninformed by private information will be targeted only at characteristics the state can easily measure, and these efforts will not be effective at attracting waverers disproportionately. They are, therefore, destined to fail in securing decentralized cooperation.

### **From the Economy to the Environment**

The difficulties inherent in securing decentralized cooperation have been on vivid display in the contemporary reforms of vocational education and training undertaken in France and eastern Germany. As I demonstrated in Chapter Three, the majority of companies that are subsidized to train apprentices in both economies do not appear to be making the heavy investment in transferable general skills that is the most enviable

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quality of the western German apprenticeship system. These states are pouring millions of dollars per year into subsidies that are, in the main, failing to elicit high-skill training behavior. This is particularly true in France, where very large firms are eligible for training subsidies despite the fact that their preference orderings make it extremely unlikely that they will ever be convinced of the merits of investing in transferable skills. They are content to let the state provide transferable skills through the system of general education, and then to provide firm-specific training to employees as necessary. Large firms in eastern Germany are far more likely to be investing heavily in transferable skills training, and far less likely to be taking state subsidies to do so, than any other group of firms in my sample. They have product market strategies whose continued success depends on the availability of the sort of skills supplied by high-level investment in training, and they have received financial and technical support from the western German conglomerates that are usually their owners. For opposing reasons, then, the waverers are not to be found among large firms in the two economies: large eastern German firms are usually existing cooperators, and large French firms are confirmed defectors. Yet these large firms constitute a minority of potential training places in either economy; the fate of both reforms thus hangs on the action of small- and medium-sized enterprises (SMEs).

The waverers in the two populations are to be found among the SMEs, but national and regional governments lack the capacity to identify the waverers and design policies that can attract them disproportionately. The story of Chapters Four and Five was how employers in some areas used public policy to overcome these difficulties, while others did not. In eastern Germany, the two states of Saxony and Saxony-Anhalt adopted very different policy proposals to elicit investment in apprenticeship training, and these results are apparent in the behavior of companies training in these states. As I showed in Chapters One and Four, this difference could be attributed neither to differences in social capital, nor to different capacities of employers' organizations, since the states do not vary on these dimensions. What differentiates the two is the way in which policy was designed: in Saxony, the state government institutionalized the involvement of private actors in the process of policy design, while in Saxony-Anhalt the input of employers and unions was largely ignored. As a result, the Saxon state government adopted a policy program that has been more effective than any other eastern

German subsidy policy in convincing companies to mimic the training behavior of western German companies. In Saxony-Anhalt, where policies have been designed only in light of the government's informational resources, state policies have been unsuccessful in securing decentralized cooperation among companies.

The Saxon *Verbund* policy concentrated groups of wavering firms together in a training alliance, often using a large firm committed to high-skill training as the central node of the alliance. The *Verbund* targeted the particular concerns of waverers: the high-costs of training in the first year and the quality of the broad training received during this year. And in the process of doing so, it brought waverers together with each other over the three year life of an apprenticeship contract to persuade each other of the value of the training investment that each had made. Among this small group, the choice to cooperate seemed not an implausibly high risk, but a reasonable investment in the long-term skill prospects of the company. Inter-firm deliberation and experience with the infrastructural institutions of the training system allowed these companies to overcome their status quo bias and their analytic uncertainty about the value of cooperation.

In France, employers' associations generally lack the organizational capacity to collect this information and design policies that will specifically appeal to the most likely cooperators in the population. The institutions developed to enable regional governments to take over responsibility for youth training have repeatedly stumbled over the informational obstacles constituted by weak employers and unions. Without access to good information from these private organizations, the regional governments have only been able to develop policies based on publicly available information, and these policies are incapable of disproportionately attracting the waverers in the population. The national government has remained deeply implicated in the provision of in-firm training subsidies, but it is even further removed than the regional governments from the private information necessary to develop policies that effectively facilitate cooperation among companies. Thus it has offered subsidies that are available to any company that wants to train, regardless of its likelihood of investing heavily in training in the long-term.

In the one area in which we observe success in France, an employers' organization has used these indiscriminate subsidies to finance its *own* program for subsidizing the risk of waverers who experiment with cooperative training practices. In

this case private information has directed the application of public policy, such that indiscriminate subsidies can effectively discriminate between potential cooperators and confirmed defectors. In the Valley of the Arve, employers first turned to the state to provide some sort of sanctioning capacity, since the association was unable to play this function on its own. The state was unable to create an effective sanctioning mechanism to prevent poaching among companies, yet the association in the Arve nevertheless managed to frustrate the grim predictions of game theorists by convincing wavering companies to experiment with high-skill training, despite the lack of sanctions against poaching behavior. These companies, brought together in the context of their repeated interaction through the courses of their trainees, persuaded each other of the wisdom of the training system even as they gained confidence in the ability of the system to deliver workers of high qualification levels.

The French and German cases underscore the importance of information and of deliberation in securing decentralized cooperation. But will these general lessons have wider empirical purchase? I have claimed that the informational limits of states are endemic to many of the supply-side economic policies currently in vogue across the OECD. National governments are not omniscient, and much of the information necessary to develop effective policies promoting human capital formation or facilitating technology transfer resides with the actors who will be involved in making those individual choices. Thus, states that want to develop effective policies will be tempted to tap into these informational resources to overcome their own limited knowledge. Weber's dictum about the "overtowering" knowledge advantage of the bureaucrat over the ruler has now been revised in favor of the private actors (and their interest associations) vis-à-vis the government. Moreover, just as the informational advantage of the bureaucrat is diminishing, so too is the usefulness of the coercive power of the Weberian state. Given the sorts of uncertainty engendered by these reforms, sanctioning is frequently an instrument without credibility for securing decentralized cooperation. Faced with the simultaneous weakening of its two traditional strengths, governments will be forced to develop innovative new strategies in order to succeed in their legislative goals.



The problems of securing decentralized cooperation are not likely to be restricted to the political economy, although that is probably where they will be most prevalent. Political economies, and particularly European political economies, have seen the emergence over the past century of a variety of exotic bargaining regimes to balance the competing demands of capital and labor. Yet even states without such arrangements, in policy areas outside the political economy, will have to face the challenges of procuring the cooperation of private actors with one another. One such area is environmental regulation, which is typically viewed as an area of pure state regulation, in which the state steps in to limit the negative externalities that individual rationality often motivates firms to generate.<sup>6</sup> However, as I shall demonstrate through the initiative of the Chesapeake Bay Program, the problems identified above for areas of economic policymaking are now relevant to multiple environmental initiatives (cf. Sabel et al., 1999).<sup>7</sup> And this in the context of the American liberal market economy, in which institutionalized negotiation has a smaller role in general than in the European cases studied up to this point. While the value of the case is purely illustrative, it does increase our confidence that these findings will travel.

### *Chesapeake Bay Program*

*[T]he Chesapeake Bay represents the antithesis of a traditional environmental problem, and offers a view of the environmental challenges that will arise in other venues in the next century. There is no single polluting industry that can be fined or shut down, no single resource, like water, that can be targeted for regulatory action. Nor will the problem be solved by a massive infusion of government dollars (Stranahan, 1993: 298).*

Environmental regulation in the industrialized states has in the past been a policy area in which governments adopt laws then establish an agency to enforce the rules. The Chesapeake Bay Program (CBP) resulted from the governmental acknowledgment that

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<sup>6</sup> Which is not to say that polluters and the victims of pollution have not often met around the bargaining table. However, they traditionally do so episodically in order to influence the decisions of the state agency regulating the question at hand.

<sup>7</sup> My attention was drawn to this case by a stimulating article by Sabel, Fung, and Karkainen (1999), in which they make a broader argument about the development of “rolling rule regimes” in American environmental regulation. Thanks to Archon Fung for discussions of this case.

such an approach would not succeed in repairing the degradation inflicted by various forms of pollution on the largest estuary in the United States. The CBP was born in 1983 of an agreement among the three most affected states (Maryland, Virginia, Pennsylvania), the District of Columbia, and the Environmental Protection Agency (EPA), which followed a seven year study of the problems of the marine ecosystem. It represented a novel, consensus-based central governance mechanism that brought together state and federal representatives in on-going consultation and goal-setting, and the group in 1987 produced a document establishing specific guidelines for meeting the broad objectives set four years earlier. The most notable specific goal of the 1987 agreement was that of reducing the load of phosphorous and nitrogen in the bay and its tributaries by 40 percent by the year 2000. While the consensual inter-state and inter-agency pact used to generate the specific recommendations is unusual, the initial *goal-setting* could be seen as a simple variation of past means of regulation, tailored to the problems of an ecosystem that cuts across several different jurisdictions. What defines the Chesapeake program as a policy problem of decentralized cooperation is the strategic situation and analytic uncertainty it has created.

In the wake of the 1987 agreement, the state governments did what states do best: they regulated the sources of pollution, e.g., banning the sale of laundry detergents containing phosphates and improving the methods used by sewage treatment plants (Davison & al, 1997). Such offenders were relatively easy to identify and to take action against; yet the slow progress in nutrient reduction after 1987 drew increasing attention to sources of non-point pollution, especially run-off from farms. Point sources of pollution are pipes that discharge nutrients directly into the bay, such as sewage plants. States can regulate point pollution easily enough, because they merely have to know where the pipes are, monitor their discharge, and impose sanctions for excessive pollution. Non-point pollution refers to run-off from storms: rain washes nutrients (nitrogen, phosphorous) off the lands of farms, which then seeps into streams or the water table.<sup>8</sup> This makes non-point pollution difficult to measure and *ipso facto* difficult to regulate, because the efforts to enlist farmers to reduce such pollution are voluntary: in Maryland, for example, they

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<sup>8</sup> In 1996, 66 percent of the phosphorous and 57 percent of the pollution to the Chesapeake Bay came from non-point sources((CBP), 1999: 24).

generally involve state subsidies for farmers to install best management practices, including the elaboration of nutrient management plan. However, the state does not verify whether or not farmers are actually implementing the nutrient plans ((CBP), 1994; Davison & al, 1997). In order for the goals of the Chesapeake Bay Program to be reached, the state governments must convince farmers and property developers to agree to cooperate with the goals of the program, even though the states possess no feasible way to measure individual compliance, nor a means to compel it.

The key group for dealing with non-point pollution is farmers, since the runoff comes from their land. What is the character of strategic interaction here? The farmers living on bay tributaries view their land as their principal asset, one whose long-term value is strongly determined by the local environment (Paolisso & Maloney, 2000). The action of any one farmer to limit his or her runoff will only have an aggregate effect if most farmers agree to limit their runoff; but limiting runoff is costly, and no one is sure what the others will do. If a farmer invests in a nutrient management plan while no other farmer does so, then he receives the worst possible outcome: he pays but gets no benefit to the environment. But each farmer would prefer that the majority of farms invest in nutrient management plans. While farmers are not the only actors in this dilemma, their position is central. There are environmentalists, government officials, and fishermen on one side, while developers and industries stand on the other. The first group of actors is highly concerned with decreasing the pollution in the bay, while the second group stands to gain from minimal regulation of pollution in the bay, at least in the short-term.<sup>9</sup> Thus, the problems of strategic interaction are concentrated among farmers, and it is among them that the waverers are likely to be found.

Analytic uncertainty compounds the cooperative dilemma facing farmers and other actors in the Chesapeake, as they are not certain how to estimate the costs nor the benefits of a nutrient management plan:

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<sup>9</sup> A study of the attitudes of farmers in the Chesapeake Bay region confirms that they see their interests as distinct from both industry and environmental officials. "I think by and large a lot of big businesses, their motive is profit. And whatever they have to do to always show a profit[, they will. ... Their attitude is] to hell with [the] environment." On the other hand, farmers view environmentalists as unaware of the compromises that are necessary to reconcile a healthy environment with productive farming (Paolisso and Maloney 2000).

the day is likely coming when the tributary strategies become final and the full costs of making the necessary investments is realized. Even then, the cost picture is very confused: a farmer may actually save money from reduced fertilizer and pesticide purchases; a developer may be able to tout settling ponds and wetlands as community amenities; an industry may save from a pollution prevention measure (Matuszeski, 1995).

Given the complexity of the strategic interaction among the different stakeholders in the Bay, it is hardly surprising that farmers are not at all clear what they will gain and what they will lose if they restrain pollution from agricultural runoff, even if other farmers also cooperate.

As predicted by my explanatory framework, the states involved in the CBP have found that the tools they try to use to limit non-point pollution—i.e., their sanctions—have been ineffective, faced with the lack of information available to those states and their difficulty enforcing measures. Indicative of this phenomenon was the passage by the Maryland state legislature, immediately after the signature of the 1983 agreement, of the Critical Area Protection Act, which established stringent controls of the one-thousand-foot strips of land bordering the bay. The measure enraged landowners and developers, who consequently sought and received numerous exemptions and grandfather clauses, which vitiated much of force of the legislation (Davison & al, 1997: 205). While the program has undeniably driven up the price of land in the area, the pressure to develop it continues, and local governments have been lax in enforcing the provisions against developers (Macdonald, 1997). As the credibility of these measures declines, given the numerous exemptions and haphazard enforcement, they have lost their ability to convince non-point polluters to cooperate, since the risk of punishment is so low.

It was about the time of the passage of the critical areas act that the states involved in the CBP began to recognize they lacked the fine-grained information necessary to undertake detailed policy analysis and to overcome the obstacles that prevented individual actors from cooperating. A citizen monitoring program, founded in 1985, allowed residents to combine their local knowledge of the waterways with the technical expertise available to the government in order to monitor water quality throughout the bay's tributaries (Hudson, 1995). It was the availability of these data, which the states could not have achieved on their own, that would eventually lead to the

shift in 1992 to a “tributary strategy”: rather than attacking the central stem of the bay, the CBP would encourage the development of local solutions that could focus on the specific problems of individual tributaries (Matuszeski, 1995; Sabel et al., 1999). There were no obvious interest group interlocutors that possessed the necessary organizational capacities of information-circulation and deliberation, so the CBP assembled Tributary Teams, comprising local citizens, farmers, business representatives and government officials (Macdonald 1997). Lacking associational conduits to the private information that was required to enable the CBP to encourage the development of local cooperation, the state put together fora in which its technical expertise could be informed by the local, relational knowledge of private citizens.

The Tributary Teams not only collected information that the state was unable to collect; they also used this information to foster the development of strategies to convince wavering cooperators in the population: most notably, farmers. The Chesapeake Bay Trust established grants to facilitate the local projects of the Teams, giving priority to “education projects that promote a behavior change toward the bay” (Monitor, 1997).<sup>10</sup> One notable example of the effort of Tributary Teams to help persuade potential cooperators is the case of the Maryland cover crop incentive program. Recall that non-point pollution is principally a product of run-off of nutrients from farm fields when it rains; winter cover crops diminish this threat by absorbing nitrogen in the soil, so that it cannot then be washed into bay tributaries. Despite the existence of state subsidy programs to support the planting of winter cover crops, farmers have not flocked to this program. Maryland’s eastern shore contains a particularly high density of farms, and the three eastern shore Tributary Teams had begun by the summer of 1996 to gather information about the barriers to using cover crops. One of the obstacles commonly encountered by farmers was a lack of time and labor to plant cover crops, so the Upper Eastern Shore Team, together with university and Farm Bureau representatives, solicited government assistance in 1997 to underwrite an aerial seeding project to “address major barriers to the adoption of cover crops on a wide-scale, and to heighten awareness of their benefits in the prevalent crop rotations in the Upper Eastern Shore.” This problem is

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<sup>10</sup> In other words, to target waverers.

particularly acute in drought years, and the project hoped to provide concrete demonstration benefits of the program even during such a time by subsidizing the participation of 25 local farms in the area (Starkey 1997). Note the similarity with the eastern German *Verbund* policy discussed in Chapter Four: this program would bring wavering cooperators together to experiment with a cooperative venture, but subsidizing them so as to cover the risk of potential loss.<sup>11</sup> The Tributary Teams of Maryland's eastern shore were quite aware of the reluctance of farmers to participate in the winter cover crop plan, and they pursued a remedy that would get state support for many of those farmers while stimulating the exchange of information among a group of farmers likely to be persuaded of the long-term value of cooperation.

Tributary Teams constituted solely from the ranks of environmental groups would have had little effect on the behavior of sources of non-point polluters like farmers, because environmentalists clearly have a stated interest in cleaning up the bay as quickly and thoroughly as possible. Developing the Tributary Teams as a forum for deliberation among farmers and environmentalists had the advantage of improving information exchange among actors with a professed aim to improve the environment of the bay (Paolisso and Maloney 2000). The joint action of these teams established a setting in which these actors could learn about the effects of various steps to reduce the environmental dangers to the Chesapeake—a shared goal—while off-setting some of the costs involved. Daniel Fiorino (1999), the director of the Emerging Strategies Division at the EPA, lauds the new strategy of the CBP, noting that the inability of national regulation to resolve issues of non-point pollution in the Chesapeake “provided ample room for the emergence of an adaptive, flexible, learning-based approach to the problem”.<sup>12</sup> While there is certainly a continued role for tradition regulation of

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<sup>11</sup> The cover crop program focuses on bringing multiple local farmers into the project, where they could learn from each other as well as from their own experiences. This approach contrasts sharply with much more long-running programs whose findings are less likely to influence the choices of farmers because they are not widely known, and they do not promote deliberation among a group of local actors (e.g., Staver & Brinsfield, 1996). A 1996 survey of 1600 farm operators by the Maryland Department of Agriculture found that, among those farms that had not taken part in the subsidy program for winter cover crops, 58 percent cited ‘lack of information about the program’ as their reason for not participating (*Monitor* 1997).

<sup>12</sup> As noted in the most recent report on the state of the bay, “the major source of non-point loading reductions for nitrogen and phosphorous anticipated by 2000 will come from those Chesapeake basins with tributary strategies in place (CBP 1999: 27).

environmental pollution, it appears that environmental policy requiring the interaction of local and national actors may be as susceptible as the political economy to the attractions of the politics of decentralized cooperation.

If traditional regulation is not up to coping with the complexity of the clean-up of the Chesapeake Bay, would a simple system of private interest governance not suffice? Are the elaborate deliberative mechanisms of the Tributary Teams really required? The evidence from the favored example of multi-jurisdictional private interest governance in the United States suggests not. The US chemical industry's Responsible Care Program is a project of industrial self-regulation in which the Chemical Manufacturer's Association (CMA) has adopted a code of environmental, health, and safety principles to which its member firms are supposed to adhere. But in point of fact, adherence to the principles of the code has been varied, with members especially likely to implement only the codes in those areas visible to outsiders (Howard, Nash, & Ehrenfeld, 2000). The scheme has no explicit sanctioning mechanism for defection, and it "has fallen victim to enough opportunism that it includes a disproportionate number of poor performers, and its members do not improve faster than non-members" (King & Lenox, Forthcoming).<sup>13</sup> Moreover, since 1990, the composition of its membership has not changed: larger and more visible companies are much more likely to participate (King & Lenox, Forthcoming). These large, visible companies are probably those that least need to be convinced of following these practices—in other words, this program is not reaching the waverers, but only the confirmed cooperators. Responsible Care, with neither a functioning sanctioning mechanism nor a program of disproportionately attracting the waverers in the population, shows the limits of pure private interest governance not somehow articulated with public regulation.

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<sup>13</sup> As Scharpf (1997) has noted, private interest governance often works well only when operating "in the shadow of the state;" that is, when state sanctioning is present and credible.

**States, Coordination, and Public Policy**

How do we expect the organization of political economies to affect the incidence and success of policies premised on securing decentralized cooperation? The analytic approach adopted here is strongly informed by the literature on the “varieties of capitalism,” and the findings of this book reinforce the importance of viewing coordination as an issue of central importance in understanding how actors in the political economy respond to public policy (Hall & Soskice, 2001; Kitschelt, Lange, Marks, & Stephens, 1999). The distinction between liberal market economies and coordinated market economies turns on the mechanisms by which actors within the political economy—pre-eminently, business firms—coordinate their actions with each other. Information circulation and deliberative capacity are especially important components of stabilizing behavior around a given equilibrium, since how firms react to any given market signal depends on how they think other firms will react to that same signal. By focusing on the ways in which institutions work in concert, the varieties of capitalism approach specifies plausible micro-foundations to its support its main theoretical claims. The core argument is that there exist two groups of institutionally self-reinforcing equilibria in the advanced capitalist countries, each with its preferred mode of coordination: primarily free markets in the liberal market economies (LMEs), and primarily non-market coordination in the coordinated market economies (CMEs). Thus we understand why market “rigidities” like wage bargaining have been largely suppressed in one set of economies while only modified slightly in others (Iversen, 1999; Soskice, 1999). In both its theoretical focus on coordination and its empirical concentration on companies, this book embraces some of the principal tenets of the varieties of capitalism approach.

There is, however, an important distinction to be made with that approach, and it has to do with the principal flaw in the framework of comparative institutional advantage: namely, its difficulty in dealing with political change. Given the strongly self-reinforcing nature of the two equilibria among market economies, it is very difficult to see how governments can ever hope to create non-market coordination when they do not already possess it. Liberal market economies rely on the market, and coordinated market economies rely on employers’ associations and unions, and the sorts of coordination



achieved allow for different institutional advantages. This theoretical approach leads to an ideal-typical arrangement in which there are two existing equilibria toward which political economies tend, and movement away from these equilibria is posited to be extremely difficult (Hall & Soskice, 2001; Wood, 2001). Holding other things equal, it is true that the pre-existing organizational structures of an economy make some political economies (the CMEs) more conducive than others (the LMEs) to meeting the challenges posed by the politics of decentralized cooperation. This is a proposition supported by the evidence from eastern Germany, where the assistance of western German associations was crucial in developing the organizational capacity of employers. In spite of all the problems created by the transition to capitalism in eastern Germany, the successful establishment of strong employer organizations provides governments there with a large advantage in resolving problems of decentralized cooperation.

Yet it does not follow from my research that change is impossible, even in economies that have not been absorbed into the framework of a coordinated market economy, as was eastern Germany. The varieties of capitalism approach is ultimately too static. The success achieved in the Valley of the Arve undercuts any deterministic theory that would claim that France is doomed to failure in creating non-market coordination because it is not already classified as a coordinated market economy. In terms of the private organizations that could facilitate coordination, it is true that France finds itself in a uniquely bad situation: it lacks the organizational capacities of a coordinated market economy, but it nevertheless has a set of entrenched private sector organizations engaged in bitter competition with each other. This is not a new situation in France, nor is it one peculiar to vocational training (Howell, 1992; Levy, 1999). But our focus on the determinants of company interests and group capacity suggests some positive lessons for the French state, as it tries to develop a stronger coordinating capacity among private organizations.

On the one hand, the relatively weak coordinating capacity of employers' organizations in France implies that policies that do not depend on decentralized cooperation have a better chance of being successful than do those that depend on solving the cooperative problems inherent in apprenticeship training. For instance, the adoption and increase in the number of students receiving two-year college degrees (*bac+2*) are

suggestive of the sort of policies that are more likely to succeed in France. These degrees use the general education system to provide transferable skills that are perceived by companies to be useful in the production process. These sorts of degrees are still subject to the problems of general education, in that they are likely to be further removed from the companies that actually use them (cf. Lynch, 1992). But they can be used to increase the skill levels of the workforce without having to overcome the cooperative problems encountered in firm-based youth training.

On the other hand, there are some strategies that may enable the French government actually to improve the chances of success of future reforms that require decentralized cooperation. First, national and regional governments need to work on convincing at least some large firms of the potential benefits of cooperation. Large employers dominate the employers' associations, and as long as they do not perceive a self-interest in developing the capacity of the major sectoral organizations, these organizations will be slow in acquiring these capacities of deliberation and mobilization. Some large firms have provided collective goods to their suppliers in a certain number of areas (Hancké, 2001); if the state can convince these companies to push for the development of these capacities through their associations, the likelihood of success in securing decentralized cooperation will increase.

The second thing national and regional governments can do is to shift the emphasis of French subsidy policies. Indiscriminate subsidies to companies for hiring trainees are ineffective. This effort can be redirected to underwrite experimental programs—like “1000 Technicians” in the Arve—and then try to diffuse information about these programs to other associational actors in the economy. We have seen already that the state, because of its informational weaknesses, will have difficulty identifying the most successful programs *a priori*. However, by setting common performance criteria, it can assess over time which programs are working, and it can help circulate this information among other associations. What this suggests is that the French national and regional governments need to encourage experimentation among private groups, rather than trying to be more directive in setting policies. While this process is both costly and slow, we have seen already that the expensive, indiscriminate subsidies of the national government are currently failing to change firm training practices. As organizations gain

information about how other programs are working, they may initiate discussion among their members to strengthen the capacity of the organization to deliver collective goods. This solution lacks Cartesian elegance, but given the informational limits of the state, this sort of approach offers the best way—an experimental, resolutely empirical way—to allow organizations to learn from each other, and the state to learn from them.<sup>14</sup>

The French case demonstrates another weakness of the varieties of capitalism approach, this one born of functionalism: the axiom that each type of political economy *must* evolve mechanisms to generate coordination. France corresponds neither to the ideal-type of the LME nor of the CME. This has led analysts like David Soskice to explain how (the functional imperative of) coordination is provided in France by the state or by state-created networks of elites (Hancké & Soskice, 1996; Schmidt, 2000). French firms, along with those firms in the rest of Europe, are currently shrugging off the weak growth of the past decade and are vigorous competitors in international markets, including many of the areas of the so-called new economy. Thus, the reasoning runs, there must be something allowing French firms to reduce the uncertainty of their environment and to make credible commitments to one another. The state and its technocratic elite are still more heavily involved in the economy than in other advanced economies, so the state seems the most likely provider of coordination.

Rather than assuming that there must be some sort of invisible coordinating force that is enabling this outcome to happen, the French case suggests that coordination, like neocorporatism and the strong state/weak state debate before it, is not the single Archimedean lever by which political economists can finally see the world clearly.<sup>15</sup> Future research needs to explore cases like these more thoroughly to get good empirical evidence on the ways in which companies adapt to economic changes, bearing in mind that at any given moment, political economies may not be characterized by a perfect

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<sup>14</sup> This strategy of state-facilitated learning is similar to the deliberative democratic institutional architecture proposed by Charles Sabel and Archon Fung, and my thinking has been influenced by their work (cf. Sabel et al. 1999).

Such an empirical approach to policymaking will of course run against the grain of conventional French thinking on the role of the state, as illustrated by the comments ascribed to a French diplomat on the way in which European organizations interact: “It will work in practice, yes. But will it work in theory?” x.

<sup>15</sup> As Stanley Hoffmann has remarked, France is the graveyard of all theories.

equilibrium of expectations among micro-level agents. How mutual expectations are formed and change in a world that is itself changing quickly is a question on which we need more data, not more assumptions.

### *Negotiated Reforms in Coordinated Market Economies*

Coordinated market economies like the German one seem well-placed to cope with policies premised on securing decentralized cooperation. In comparison with liberal market economies, they are. Yet the strong capacity of employers and of unions is a double-edged sword for the coordinated market economies. While those organizations may *possess* the information-circulation and deliberative capacities necessary to succeed in targeting waverers, they may choose *not* to do so if it threatens their established bases of power within the political economy. In other words, the power and autonomy of interest groups in coordinated market economies also allows them to insulate themselves from pressures for reform (Hassel & Ebbinghaus, 2000). Once entrenched in power, they may find little reason to deviate from their established position, which means the state is without a viable partner for implementing the reforms. The problems facing CMEs therefore result more from the strength of their organizations of private interest governance than from their weakness. As Visser and Hemerijck (1997) and Katzenstein (1987) have noted, along with many others, the ubiquity of corporatist decision-making structures in many CMEs facilitates stalemate if there is an unhappy social partner who wants to block social change.

Scholars who have recently addressed the question of how to secure reform in economies like these have stressed the ability of states to put pressure on private interest groups to negotiate social pacts as the basis of institutional reforms (Ebbinghaus & Hassel, 2000; Rhodes, 1998). The danger in this approach is to read into current national bargains the renewal of corporatist concertation of the 1970s. As Marino Regini has underlined, the deals that resulted from the negotiated reforms of the 1990s were motivated not by the logic of exchange, but instead by a logic of problem-solving: “What the recent [Italian] negotiations over collective bargaining procedures, incomes policies and pension reform have involved is the devolution of policy-making functions to organized interests (especially to trade unions) in a framework of regulative rather than

redistributive policies” (Regini, 1997: 268). There was no real secret to exercising wage restraint in the hey-day of corporatist exchange: unions traded off exclusive representational rights—thus insulating them from membership discontent—for wage moderation and few strikes (Goldthorpe, 1984; Schmitter, 1974). By contrast, developing and implementing solutions to contemporary problems of policymaking requires that organizations use their access to private information. And organizations are only well-suited to deliver such information when they have the grassroots capacity to deliberate over possible alternatives and to craft a compromise viewed as legitimate by members. In the neocorporatist bargain, unions delivered their members; now, they (or employers’ organizations) deliver information from their members, as well as acceptance of the policy reform. They do that not by having monopoly power at the national level, but by having capable sub-national organizations that can circulate information among members, facilitate deliberation among them, and then mobilize them in favor of a chosen compromise.

The difference in micro-logics between the traditional neocorporatist wage bargain and the concertational reforms studied here reveals a problem with those analyses that stress the importance of the “shadow of the state” in convincing the social partners to compromise in reforms of the political economy (Hassel & Ebbinghaus, 2000). Ebbinghaus and Hassell (2000) have developed a “Goldilocks” theory of concertational exchange, in which unions must be neither too strong (as in Germany) nor too weak (as in France), in order for concertational reforms to succeed.<sup>16</sup> Where unions are too strongly embedded in the workplace, as in Germany or Sweden, they can insulate themselves from the pressures for reform and refuse to come to the bargaining table. Weak unions, like those in France, are simply unable to negotiate reliably with the state. Where states can credibly threaten to intervene—as was the case in Italy and Netherlands—this potential intervention is said to be enough to compel social partners to engage in negotiation over reforms to the welfare state or the wage bargaining system. Yet if the deliberative capacity of organization is as crucial as I have argued it is for the

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<sup>16</sup> The term “Goldilocks” theory is one I ascribe to their work, with reference to the eponymous actor’s culinary preferences at the house of the three bears. She wanted the porridge not too hot, and not too cold, but just right.

successful implementation of reforms aimed at securing decentralized cooperation, the strength of unions and employers' associations is a resource for reform, rather than a barrier. The unstated assumption in this work is that government, either through bureaucrats or through politicians, carries reforming ideas, and that interest groups block them. This assumption is often wrong.

The underlying theme of this book is that states only have access to certain kinds of information, and the information to which they have access is not the sort necessary to enable reforms to succeed. States can define the broad ends of policy, but the move away from redistributive toward regulatory policymaking asks states to do what they are worst at doing: problem-solve. Governments are great standardizers, and they can collect an impressive amount of easily measurable and observable data about the polities they govern (Scott, 1998). But they are not good at dealing with the idiosyncrasies of local knowledge, nor do they have access to reliable information about the cooperative propensities of individuals. These are the sorts of information that appear to be of paramount importance in securing decentralized cooperation: local knowledge because of the importance of responding to locally salient problems, and relational knowledge for using that local knowledge to attract the most likely cooperators in the population. To develop solutions based on this sort of information, states need to work with private groups, because states themselves have trouble getting this information.

The idea of a coercive state imposing solutions on recalcitrant social partners loses some of its appeal when the social partners are the only ones that have the information the state needs to problem-solve effectively. The coercive state has accomplished many things in the past century—many of them not altogether desirable—but states cannot effectively coerce cooperation. To the extent that states need to rely on private information to develop solutions, then, the “shadow of the state” is a relatively empty threat in forcing bargaining partners to capitulate in reforms of economic, social, or environmental policy. Given that the ability of these organizations to overcome collective action problems is one of the institutional comparative advantages of the CMEs, such a strategy amounts to closing off the most promising avenue of reform. If this book is right to underline the rising importance of information for designing context-

appropriate policy solutions, then reform in CMEs will be difficult with the social partners, but almost impossible without them.

### *Deliberation and Liberal Market Economies*

If the advantage of coordinated market economies is their organizational capacity, the great strength of liberal market economies is their reliance on free markets to coordinate expectations. And make no mistake, the free market is the best mechanism for the decentralized coordination of action in human history. Yet markets sometimes fail to produce socially optimal outcomes; this is the vexing, but all too common, problem of market failure. One of the prime cases of market failure is that of sub-optimal investment in the skills of the workforce, which is the empirical case study with which this book has been centrally concerned (cf. Booth & Snower, 1996). Markets similarly fail to build the cost of negative externalities, such as pollution, into the system of prices. The problems of the Chesapeake Bay, as of many other environmentally threatened areas, remind us that markets do not solve all ills.

There is a move underway to “reinvent government” in the United States, exemplar par excellence of the liberal market economy (Osborne & Gaebler, 1992) (Donahue, Forthcoming). Does the option of mimicking market mechanisms provide a way for liberal market economies (LMEs) to overcome their informational deficits in solving problems of decentralized cooperation? Probably not. The problems of government in gaining access to information that is either local or relational are not in any way eased by the adoption of market mechanisms. One clear example of the informational limits of markets, discussed in Chapter Five, was the marketization of training provision adopted in the French region of Picardy. The regional council first attempted to adopt a policy to stimulate firm investment in training, but it quickly realized it lacked the informational resources from private associations necessary to enable the policy to succeed. The region then moved to adopt measures to clarify the market for training provision, establishing measures for allowing individuals to compare training providers directly before choosing one. This policy did nothing to elicit employer coordination, as it was unable to target aid directly at the most likely cooperators in the population. In promoting efficiency in the existing market of training

providers, the policy was likely to succeed; but in convincing actors to change their fundamental training patterns, it was a failure.

Liberal market economies will also have to develop organizational interlocutors for states if they want to succeed in securing decentralized cooperation. Other things equal, the organizational weakness of these economies means that policies premised on decentralized cooperation are more likely to fail than in coordinated market economies. And the weakness of organizations in the American case extends beyond employers' associations and unions. (Skocpol, 1999) has amassed an impressive array of data showing that organizations with strong federalist structures—that is, with a central leadership but with organizational and mobilizing capacity across the states of the union—are in decline (cf. Putnam 2000). They are being replaced in the American organizational landscape by groups that maintain offices and a presence in Washington, but little local organizational structure to support those central offices (Berry, 1999). Such organizations are no more likely than the government itself to have access to local or relational knowledge when their organizations do not exist at the local level. Those countries lacking the solid mechanisms for non-market coordination characteristic of the coordinated market economy are disadvantaged in this respect, and they have an incentive to develop either associational capacity, or some sort of functional equivalent, to be able to benefit from the insights of local information.

But as we saw in the case of the Chesapeake, decentralized cooperation in the LMEs is not hopelessly quixotic. The construction of the Chesapeake's Tributary Teams showed that governments are capable of empowering actors on the ground through the creation of institutions that can get access to local knowledge. The secret ingredient here is to create a discourse of common interest around which actors, who actually disagree in many other respects, can see that they share a paramount common interest (e.g., "Save the Bay"). The institutions of corporatist governance in the coordinated market economies are premised on the idea that potentially competing actors can indeed come to mutually and societal beneficial results through cooperation. Liberal market economies do not generally share a discourse that highly values this sort of collaboration, and it is one that they probably need to develop in order to build up local participation in such structures of quasi-private interest governance. In the case of the Chesapeake Bay, once



the need to clean-up the bay was widely acknowledged, the lack of groups with established negotiating routines was advantageous in that it did not set off a competitive dynamic among groups worried about defending their organizational turf. Thus, the advantage for governments in liberal market economies is the ability to construct ad hoc cooperative institutions without the threat of existing organizations' actively undermining them. That will only work, though, when the state can create a discourse under which actors can agree that the failure to create cooperation would be costly to all concerned.

The regulatory challenge posed by decentralized cooperation seems almost taunting to state policymakers. There are a set of potential, cooperative, welfare-improving solutions out there to be adopted, if only they can persuade private actors to coordinate their actions on such an outcome. *But*, to the great exasperation of the policymakers trying to secure decentralized cooperation across the industrialized world, these private actors are currently in a stable pattern of interaction. If a single actor chooses to deviate from his standard pattern of behavior while almost all other actors do not, then he gets an outcome worse than that achieved by those who do not pursue the cooperative path, and who instead take advantage of the solitary cooperator. Because reforms aimed at generating decentralized cooperation create tremendous uncertainty among actors about what the potential payoffs to different courses of action are, success depends on identifying and changing the minds of the most likely cooperators in the population. This is the group I have designated the waverers. And states, for all their information-gathering prowess, are not well-adapted to identify and know how to persuade the waverers.

I have argued throughout this book that private sector associations will be uniquely well-placed to get access to private information about the waverers, and to develop policies that will target them disproportionately. Strategies premised on using sanctions to convince actors to move to the desired equilibrium will be ineffectual because they lack credibility: sanctioning will only work once a certain number of actors have moved to the new societal equilibrium, and defection from this equilibrium is widely acknowledged as being "sanctionable." Since states are very good at levying sanctions but very bad at procuring inside information from actors that want to conceal it

from them, they will need to work closely with capable private sector organizations in order to develop policies that can most effectively target the waverers and convince them of the benefits to required cooperation.

Of course, the organizational infrastructure of a polity influences the odds of success in such a reform project. In problems of decentralized cooperation, coordinated market economies enjoy an advantage over liberal market economies. But this disadvantage is not insurmountable: public policy, anywhere, can enable states to overcome stable, societally deleterious patterns of behavior. Despite the tremendous insights generated by societal equilibrium scholars like Robert Putnam (1993, 2000) and David Soskice (1999), their work is grim reading for those policymakers who want to improve the lives of their citizens. They are right that stable patterns of interaction are very hard to break out of, and my study confirms this finding. Creating decentralized cooperation is difficult, and we saw that there were many more cases of failure than of success. States must learn that information is a precious commodity in the attempt to create decentralized cooperation, whereas sanctioning is a relatively weak capacity. Governments must build and use links to private information, because they will not be able to get the information they need without such conduits. In this narrow sense, Max Weber now has little to teach them: their information is no longer especially pertinent, and their monopoly on legitimate coercion is no longer particularly effective. Once they recognize the value of local knowledge, deliberation, and the consequent capacity to mobilize, though, states can indeed succeed in eliciting new forms of cooperation, even in societies marked by past patterns of distrust. If politics is the art of the possible, policymakers should draw some comfort from the fact that the politics of decentralized cooperation is still a question of using state capabilities, in combination with private information, to contribute to the common good.

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