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WHAT HAPPENED TO THE STATE-INFLUENCED MARKET ECONOMIES (SMEs)? FRANCE, ITALY AND SPAIN CONFRONT THE CRISIS AS THE GOOD, THE BAD, AND THE UGLY

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All European member-states have been hit by the economic crisis, but some have been harder hit than others. The 'liberal market economies' (LMEs) of Anglophone countries, consisting of Britain and Ireland as well as the United States, long the darlings of the markets and the pundits, have this time been hardest hit, with their credit-fueled finance-driven model of growth having been at the heart of the crisis itself. The 'coordinated market economies' (CMEs) of Continental and Nordic Europe, encompassing Germany and the smaller European countries in these two regions, have in contrast seemingly sailed through, with their balanced model of export-fueled growth jeopardized mainly by the exposure of their banks to bad loans picked up in the LMEs. The other countries of Western Europe, generally left unlabeled by the Varieties of Capitalism school of political economy but which I call the 'state-influenced market economies' of Continental and Mediterranean Europe (SMEs) because of the defining role of the state, including France, Italy, and Spain along with Greece and Portugal, have had varied responses. While France has had a pretty good crisis, Italy's has been bad and Spain's has been ugly, although it has so far been nothing like the sovereign debt disaster that struck Greece and then overtook Portugal as well as Ireland.

To provide a clearer profile of state-influenced market economies and their responses to the crisis, this paper takes a closer look at the three most advanced and industrialized of the SMEs, France, Italy, and Spain. The paper begins with a theoretical discussion of the political economy literature on the varieties of capitalism to demonstrate the value of adding the classification of 'state-influenced market economies' as the third variety of capitalism. It next focuses on the political economic institutions and policies that are generally the focus of the VOC literature, offering brief accounts of the changing role of the state and its interrelationships with business and labor as it liberalized at different critical moments as well as incrementally with different degrees of success in the different countries. It then follows with a consideration of such factors as political institutions and politics—understood not only in terms of parties and interests but also ideas and discourse—as well as the EU. Next, the paper examines the period from 2008 to 2010 more closely, beginning with a comparative overview of the state of these countries' economic fundamentals during the crisis. It subsequently takes each country in turn, distinguishing between the initial period consisting of response to the spillover effects of the meltdown of the US financial markets in 2008 and 2009, when European countries first saved the banks in 2007/2008, then the real economy in 2009, and then in

2010 confronted the sovereign debt crisis linked to contagion effect of the Greek debt crisis.

The main argument of the paper is that despite a set of political economic characteristics centered on the state as the main driver of capitalism, SMEs nonetheless differ greatly. And this depends not only on political economic setting but also policies, polities, and politics. The paper also demonstrates that the neo-liberal reforms through which states in all three countries had reduced their interventionist capacities since the 1980s have made a difference to their responses to the crisis, in particular for France. As a result, although all three countries remain classifiable under the rubric of state-influenced market economies when it comes to the general configuration of business, labor and state relations, during the crisis state influence is better characterized by what leaders proposed and publics expected (as in the politics of ideas and discourse) than what governments actually could do (in terms of policies), given limits to their capacity to act as a result of previous reforms to national political economic institutions as well as of constraints imposed by EU institutions and global markets.

State-Influenced Market Economies

The only thing that France, Italy, and Spain and have in common in the theoretical literature in political economy is their absence from the list of countries that fit into the two ideal-types of the Varieties of Capitalism school (VOC), whether 'liberal market economies' (LMEs) encompassing Anglophone countries or 'coordinated market economies' (CMEs) consisting of most smaller Continental European countries plus Germany, all Nordic countries, and Japan (Hall and Soskice 2001). As outliers, France, Italy, and Spain tend to be grouped by VOC with other non-conformers in the category of 'mid-spectrum' economies' (Hall and Soskice 2001) or 'mixed market economies' (Hall and Gingerich 2004; Molina and Rhodes 2007) which are by definition plagued by intra-system contradictions, misfits, and perverse spillovers. Other outlier countries include Portugal, and Greece in Western Europe while in Asia they encompass South Korea and Taiwan. Notably, these are all countries in which the state plays and has in the past played a much more active role than in the ideal-typical LME or CME—whether it was termed 'state capitalism' for France or the 'developmental state' for South Korea and Taiwan (Schmidt 1996, 2002; Weiss 1998)—and in which today the state continues to intervene more, for better or for worse.

The VOC literature fails to take account of one overarching similarity between France, Italy, and Spain: In all three, the state has played and continues to play a greater, and different, role in organizing economic activity for business and labor, whether it acts in a positive, 'enhancing' manner, mostly the case of France and recently Spain, or in a negative, 'hindering' one, long typical of Italy. I have argued (Schmidt 2002, 2003, 2009) that this makes these three countries part of a third variety of capitalism, as 'state-influenced market economies' (SMEs). These countries are distinctive not just because of the greater importance of state action——all countries, after all, have states that make and shape the markets, a reality which is under-theorized in VOC but has been the focus of recent scholarship that brings the state back in (e.g., Weiss 2003; Levy 2006; Leibfried and Zürn 2005; Schmidt 2009). It is also because of how this affects the whole logic of interaction of business, labor, and the state. In SMEs, not only is the state more 'influencing' than in the 'liberal' state of LMEs and the 'enabling' state of CMEs but relations between firms, labor, and the state are also characterized by a more hierarchical logic of interaction than in market-reliant LMEs and non-market coordinated CMEs. In state-influenced market economies, adjustment is firm-led in those domains where business exercises autonomy—in business strategy, investment, production, and wage bargaining (in France). But adjustment is still state-driven in those domains where neither business nor labor can exercise leadership — in financial market rules, labor regulations, pension systems, wage-bargaining (in Spain and Italy in 1990s) and the like — or where the state sees a need to reshape the general economic environment to promote competitiveness (e.g., in mergers and acquisitions or state aids). In either case, the logic of interaction is one of hierarchical authority rather than CME joint-decision between management, labor, and the state or LME unilateral action by autonomous firms (Schmidt 2002, Ch. 3, 2009).

Seeing three varieties of capitalism has a long history, going back at least to Shonfield's (1965) division of capitalism into liberalism, corporatism, and statism, which was later picked up by Katzenstein (1978) among others. But both corporatism and statism as explanatory categories were dropped by the 1990s under the influence of ideas that presented capitalism as converging on a single neo-liberal ideal-type, in which the retreat of the state and the decline of labor in favor of unfettered markets, engineered via liberalization, deregulation, and privatization, spelled the end of any other models (e.g., Cerny 1994; Strange 1996). Whereas scholars impressed by the merits of the economic management systems of 'corporatist' Germany and the smaller countries of Continental and Nordic Europe fought back, vigorously opposing the monism of the convergence theorists by arguing that 'managed capitalism' or 'coordinated market economies' constituted an alternative model—or even a normative ideal—to the neo-liberalism of Anglophone countries, no one was defending statist countries. This was not only because their state-led model fit neither the neo-liberal nor the coordinated capitalist normative ideals but also because their statist approach to economic management appeared bankrupt by the mid 1970s and underwent major transformation thereafter. To say that statist countries' capitalisms were changing, however, does not mean that statism as a third variety of capitalism was dead, just that it too has been transformed — to 'state-influenced market economies' in which the state continues to act, but in a less directly interventionist manner, picking up ideas about policies and processes from the other two models but implementing them in their own manner.

Increasing numbers of scholars have in recent years highlighted the continued existence of a third variety of capitalism as one in which the state plays a crucial role. In addition to Schmidt's three varieties, with Britain the ideal-typical LME, Germany the ideal-typical CME, and France the ideal-typical SME, Coates (2000) identifies a third state-led model of capitalism associated with Japan, while among Boyer's (2004, ch. 2) four varieties the third is 'state-driven' capitalism,' and among Whitley's (2005) four empirical typologies, the third is the 'dominant developmental' state. Moreover, for France specifically, while Levy (1999; see also Clift this volume) sees France as '*post-*

dirigiste,' Thiberghien (2007) calls it an 'entrepreneurial state' along with Korea and Japan, and I have charted the move from 'state-led' to 'state-enhanced' capitalism'(Schmidt 2002, 2003). For Italy, whereas Barca (2010) characterizes it as "public neo-capitalism," Della Sala (2004) calls it "dysfunctional state capitalism." And for Spain, whereas Molina and Rhodes (2007) persist in calling it a 'mixed market economy' along with other Mediterranean countries like Spain, Italy, Portugal, and Greece, Royo (2008) splits the difference by calling it a 'state-influenced mixed-market economy.' The definition of Molina and Rhodes (2007), however, fits closely with SMEs, given the defining role of the state and the 'top-down conflict governance' logic of adjustment which is very close to the logic of hierarchical authority we defined for SMEs, once we add into the equation the conflictual politics that such hierarchical authority often generates (see Schmidt 2009).

Also problematic in the VOC literature, however, is the fact that the particular methodological mix, which combines rational choice institutionalist attention to coordinative logics among system components with historical institutionalist emphasis on path dependent regularities, is static. Because the components are theorized as in equilibrium—and need to be for a rationalist game-theoretic logic to work—it makes it very making it difficult to explain actual change in countries' varieties of capitalism over time (Crouch 2005; Schmidt 2002, 2009). And it also makes one forget that countries have long institutional histories that don't just establish historical institutionalist 'path dependencies' that change only at critical junctures (e.g., Pierson 2000). They may instead change incrementally, through 'layering,' 'drift,' or 'conversion' following the revisionist historical institutionalist arguments of Streeck and Thelen (2005). But such change, whether crisis-driven or incremental, also cannot be explained without considering the political economic agents of change, and the ways in which they engage with such institutional histories, whether as ideational 'imprints of the past' (Merrien 1997) or 'collective memories' (Rothstein 2005) that are reinterpreted over time in response to the needs and considerations of the moment or, as discussed by Clift (this volume) for France, as actors are engaged in 'acting out change' (O'Sullivan 2007) against a background of national traditions of economic thought, shaped by state traditions, and decades of lived economic practice. Such ideational imprints, collective memories, and economic practices are what make the state the legitimate (or not so legitimate) driver of business and labor in the eyes of everyone, elites and general public alike, for our three countries. This helps explain why all three countries could have gone through a long period of liberalization and retreat of the state—at critical junctures and incrementally—but not converge on the liberal model of LMEs (pace Hall 2006—see Clift this volume). It also helps explain why, once the economic crisis hit, France in particular was able to return quickly to the ideas and discourse of state leadership of national economies and of global regulation, although this did not affect the practice. And it additionally suggests that alongside a historical institutional framework of analysis that focuses on the rules and regularities in political economic institutions and interactions we should use a discursive institutionalist framework that considers agents' ideas and discursive interactions that give meaning to political economic institutions and dynamics to political economic change (Schmidt 2008a, 2009, 2010; Campbell and Pederson 2001; see also Hay 2006).

By considering France, Italy, and Spain as state-influenced market economies, then, we identify a third variety of capitalism distinctive for the role of the state in the economy. This said, despite overall similarities in political economic institutions, they exhibit significant differences across time, and not only in their different histories, policy legacies, political institutions, and politics. Importantly, even some of the defining characteristics for SMEs, such as high levels of state regulation across business, banking, labor markets, and social systems, nonetheless correlate differently with a range of other variables, such as administrative capacity, corruption, and economic inequality—with France generally scoring most virtuous, Spain less good, Italy bad. With regard to equality, to take only one example, France tends to sit with other Continental European countries like Germany in terms of reasonably high levels of income equality—nothing like Sweden, but much better than the UK—by contrast with the high levels of income inequality in Spain and even more so in Italy—putting them in the same class as the UK (see Blyth and Hopkin 2011). To explain this and other issues, the paper points not only to the structural factors but also to ideational ones as these countries developed and changed over the long term as well as during the crisis.

POLITICAL ECONOMIC INSTITUTIONS AND POLICIES OVER TIME

Although in all three countries the state has always played an influential role, the role it has played and the influence exerted has changed significantly over time. In the postwar period to the 1970s in France, the *dirigiste* state predominated through its leadership of business activity and its control over labor. It promoted economic growth by acting *in loco mercatis* where it deemed necessary, by taking the place of the markets through nationalized industries, by orienting the markets through planning and industrial policies, or by replacing the markets with regard to wage coordinating mechanisms, (Schmidt 2002, Ch. 3; see also Hayward 1973). In the other two countries, the postwar state also led, but mostly to the detriment of the country. Italy's political economic institutions, by comparison with those of France, fell far short of the ideal, making for a kind of failed state capitalism in which the state was unable provide leadership to business, to run its nationalized enterprises effectively, or to control the unions, making it 'state-led by misdirection' (Schmidt 2002, p. 109). Spain was the anti-thesis of France, with an authoritarian state capitalism in which the fascist state predominated through its corporatist organization of business and labor, and stunted as it controlled economic growth.

Since the 1980s, however, much of the state's relations with business and labor have changed in all three countries. In France, the state itself engineered a '*dirigiste*' end to *dirigisme* (Schmidt 1996), ushering in the 'post-*dirigiste*' state (Levy 1999; Clift this volume). The French state no longer leads business as a result of privatization and deregulation, and no longer imposes wage bargains, since state withdrawal in the 1980s led to its radical decentralization. Nonetheless, the state continues to influence business and labor by intervening where and when it sees fit—something that is taken as a right by state officials and is accepted as legitimate by the public and even those most affected, even when they contest the actions. For business, such state action generally involves *ad* *hoc* decisions, say, to 'rescue' companies from bankruptcy or foreign takeover, as in cases of government blocking foreign takeovers of energy companies and banks. It has, however, also often led to a highly *laissez-faire* approach to the regulation of major firms, such as in the banking sector, which ensures greater control not to the markets, as in LMEs, but to the bankers through their oligarchic relationships (Massoc and Jabko 2010; Clift, this volume). For labor, state intervention takes the form of efforts to liberalize the labor markets—as in the case of the de Villepin government's abortive attempt in 2006 to increase flexibility with a two year probationary contract for youth employment—or to 'moralize' the labor markets, as in the initiative of the Jospin government on the 35 hour work week in the late 1990s (Schmidt 1996; Levy 1999; Schmidt 2002, Ch. 4). Both point to the paradox of the state which, having been the main architect in the dismantling of centralized labor market regulation, nevertheless remains a central actor in the reconstruction of the industrial relations system (Howell 2009) as well as in the maintenance of the 'social anesthesia state' when it comes to welfare and social assistance (Levy 2008).

French business has also been transformed, having become highly autonomous. Having been mostly state-led through planning and industrial policy or state-owned in the postwar era, French business was then subject top massive nationalization in the early 1980s, then progressive privatization, in which *noyaux durs*, or hardcore shareholdings, of strategic investors took their place (Schmidt 1996). The resulting strategic hardcore share-ownerships made French firms much less vulnerable to the vagaries of the financial markets than the firms of LMEs—despite a high level of foreign (mainly North American) institutional investors in the French *Bourse*. This is because French firms have been protected by network-based relationships that somewhat resemble those of CMEs, albeit a lot less stable once the *noyaux durs* began to dissipate in the mid 1990s, leaving interlocking directorships (Schmidt 1996; Goyer 2003; Clift this volume). But in place of strong, formal networks, French firms retain significant interconnectivity through informal networks based on corporate elites' state-related education and experience—a by-product not only of long-standing practice but also of a privatization process in which the retreat of the state actually entailed the colonization of business by the state, through its civil servants named to head the privatized firms (Schmidt 1996). These networks are also a source of greater inter-firm coordination, sharing of information, and cooperation on corporate strategies than that found in LMEs, even if they are no substitute for the deep network linkages of CMEs (Hancké 2002; Schmidt 2002, Ch. 4). But the deep public-private interpenetration makes for a very different kind of market competition among big French firms than in LMEs and CMEs (Massoc and Jabko 2010; Clift this volume). Moreover, despite a massive increase in the size of the financial markets, firms are not market-driven in the manner of LMEs. They are able to set their own corporate strategies because they go to the markets mainly to underwrite mergers and acquisitions, having developed internal sources of funding once the state privatized them. And the state itself can no longer exert any systematic influence (O'Sullivan 2007), although it does intervene where it sees the need, for example, to promote mergers or to scuttle foreign takeovers in industries it deems strategic (Schmidt 2002).

Labor relations have also changed dramatically in France. Traditionally fragmented and weak labor unions have only become weaker, except in a few strategic areas of the public sector. Union membership has gone from over 25 percent in the postwar period to below 7 percent today. When the Socialist government withdrew from the organization of labor relations, having passed laws establishing direct management-labor dialogue in the early 1980s in the hopes that a CME-style coordination would take its place, radical decentralization of wage-bargaining ensued instead (Howell 1992). But thanks to the state's continued involvement, despite the resulting lowest union density among advanced industrialized economies, French workers benefit from a dense—almost 'micro-corporatist'—network of institutions of social dialogue, bargaining, and worker representation, while almost all are covered by collective bargaining and the great majority have some type of non-union labor representation inside the firm. In other words, although French wage-bargaining has become more decentralized and the labor market more flexible thanks to the state, the state continues to regulate management-labor relations by establishing and/or legitimating who represents workers and how, and to organize the labor market by generalizing to an entire sector agreements made by only a fraction of firms and labor (Howell 2009, pp. 230-2). These kinds of labor protections, however, along with measures taken to buy labor peace through generous early retirement plans during the restructuring of major industry in the 1980s and 1990s, have meant that France has a rather inflexible labor market, high levels of unemployment even in boom times, and low levels of labor market participation, in particular for older workers—all of which taken together makes for a very expensive welfare state (Levy 2008).

In Italy, the 'paralyzed' state of the postwar period that lasted until the 1990s had neither the centralized authority of the French executive nor its administrative capacity, given a weak executive, an incompetent if not also corrupt civil service, a strong but ineffective parliament, and *partitocrazia,* or the politicization along party lines of all aspects of political and administrative life—including the appointments of managers of nationalized enterprises along party lines proportionate to parliamentary representation. In this context, business actors ignored the state when they could or, when they couldn't, bought it off (DiPalma 1977; Pasquino 1989). Only regional governments, especially in the north central and western regions, played an 'enhancing' role for the 'third Italy' of small interconnected business (Locke 1995). Things got better with the inception of the 'Second Republic' in the early 1990s, when the fall of the Berlin Wall led to the collapse and subsequent renewal of the Italian party system. Privatization and deregulation began for real under technical and center-left governments, as did reforms of pension systems and labor markets—in particular in the run-up to EMU. But all such reforms slowed once Berlusconi came in as of 2001; and this did not change during the hiatus provided by the Prodi government of 2006-2008. Nonetheless, big business outside of the nationalized sector, long more autonomous than state-led French business, given a predominance of family-owned private firms and the state's lack of leadership, only increased its autonomy with privatization and deregulation. Business relations with labor also improved significantly—but in this case followed a completely different course from that of France, and more like in Spain.

Instead of the radical decentralization of the labor markets, as in France, both Italian and Spanish states stepped in to help ensure greater business-labor coordination in a kind of macro-concertation between employers, unions, and governments (Hancké and Rhodes 2005; Regini 2003; Royo 2002). Not only have business and labor in both countries been more organized than in France, labor has even greater capacity for disruption given its much higher union membership, and it has also had a stronger political role. Deregulation was therefore not a real option, as it was in France (Molina and Rhodes 2007). But concertation was also not easy—as the postwar Italian failure to attain corporatism attests. The more recent 'state-led corporatism,' therefore, was completely unexpected, given the traditional lack of organizational capacity; but it has been very different from the traditional corporatism of the CMEs. Not only have the social pacts mainly been focused on reforming labor markets—to make them more flexible, to reduce labor costs, and to increase competitiveness—but they have also been arrived at by much more fragmented, weakly organized economic interests. Most importantly, state action to organize labor has played a greater role than in CMEs, with much less predictable results (Rhodes 1998; Hassel and Ebbinghaus 2000).

Although both Italy and Spain engaged in such social pacts, Spain's were arguably more successful over the long term. Whereas in Italy, success in sustaining social pacts came only in the 1990s, in Spain social pacts worked from the late 1970s to the mid 1980s, collapsed after 1986, and reemerged in the mid 1990s. Moreover, while in Italy social pacts have always depended on positive government action to promote them—explaining the success of center-left governments in the 1990s, the failure of the Berlusconi government in the 2000s—this has not always been the case in Spain, where a number of pacts have been signed without the government (Royo 2008). Where the state has been involved, it did more to hinder than to enhance, as evidenced by the fact that it was the failure of government-imposed reform from the mid-1980s to the mid-1990s as well as its inability, along with employers, to impose wage moderation and curb inflation, that acted as a spur for employers to seek the renewal of social pacts (Perez 2000; Royo 2008).

Spain's businesses also bear strong resemblances to those of Italy, where strong strategic coordination in financial markets resulting from networking and family financing also makes hostile takeovers rare, in growing contrast to France (Royo 2008). But leaving hostile takeovers aside, all three countries are closer to one another with regard to the informal network-based ties of business than they are either to the arms' length LMEs or the formally networked CMEs. In France, ties among big business elites based on state-related training and experience creates a closeness that has its equivalent in the family-based ties of big business in Italy and Spain.

Finally, it is probably no accident that the main countries accused by the EU Commission of 'economic nationalism' even before the economic crisis (other than Poland) have been France with regard to energy and banking; Italy, which after protecting against French blocking of an Italian energy company's attempted takeover, sought to block French takeovers in banking and energy; and Spain, which blocked the takeover of an energy company. And it should come as no surprise that that more activist state involvement at the national level has its equivalent at the supranational level, as these are the countries that tend also to be most in favor of EU and global regulation of the markets, in particular in the case of France (Clift this volume).

Political Institutions and Politics in Time

The state, then, remains central to the historically developing political economic patterns and junctures as well as to the evolving ideational constructs and discursive interactions in SMEs' political economic institutions. But political economic institutions and policies are only two of a number of factors necessary to the explanation of change (and continuity). Also important are political institutions and politics—meaning not just party-based coalitions and strategic interests but also guiding ideas and communicative practices.

While the political economic setting centers attention on the different institutionalized patterns of interaction among political economic actors, the political institutions shift the focus to the governmental structures that frame those political economic interactions. These may be stylized as 'simple' polities in which governing activity is channeled through a single authority as a result of a unitary state, majoritarian representation system, and statist policymaking or 'compound' polities in which governing activity is dispersed through multiple authorities as a result of a regionalized or federal state, proportional representation system, and corporatist or even clientelist policymaking (Schmidt 2006). Differences in political institutions shape the ways in which the political economic actors interact, with those in 'simple polities' like France much more likely to find the state imposing policies—as the state acts and society reacts (Schmidt 1999)—than in more 'compound polities' like Italy or Spain, in which state negotiation with business and labor or sub-national governments is generally necessary.

Such political institutional differences also affect the discursive processes of interaction involving political economic actors' coordinative discourses of policy construction and their legitimating communicative discourse to the general public. Although both kinds of discourse are present in all polities, the coordinative discourse tends to be more elaborate in compound polities, the communicative in simple ones. Thus, because France is a 'simple' polity, French leaders need at the very least to legitimate the policies they impose through a persuasive 'communicative' discourse to the public, or risk sanction via elections or protest in the streets (Schmidt 2002). Because Italy and Spain are instead 'compound' polities, the state needs to negotiate widely through an elaborate 'coordinative' discourse with the social partners and regions or risk not only not gaining agreement on reform but also generating protest in the streets. Note, however, that in recent years, while governments in Italy and Spain have also come to rely on a communicative discourse to the general public—in particular where the coordinative no longer works and/or needs reframing—governments in France have also begun to improve their coordinative discourse with the social partners—especially since the communicative is often no longer enough to push through reform.

Politics also matter. Here, we need to consider the politics surrounding policies and how governments politically succeeded (or not) in instituting policies that served to alter the postwar patterns. For France, the critical juncture came in 1983, with the Socialists' great U-turn in macroeconomic policy, which was followed by liberalization, privatization, and labor market decentralization. But regarding these policies, while the cognitive elements in the communicative discourse about the necessity of rising to the challenge of globalization were convincing, the normative arguments seeking to legitimize reform were not, and continued not to be, so much so that their absence has engendered a continuing political crisis for the country, as reflected in the constant turnover in governments (Amable and Palombarini 2010).

For Spain, the critical juncture came earlier, in the late 1970s and early 1980s, with the democratizing push associated with the end of the Franco era and the liberalizing reforms related to accession to the European Union, while incremental changes followed with regard to the liberalization of the financial markets, deregulation of business, and increasing flexibility of the labor markets. Here, the legitimizing discourse was largely successful, as it was set against the fascist past and in favor of promoting democracy and modernization. But it took a while to develop, and there were naturally significant differences between the conservative right, a more neo-liberal right, and the social-democratic left.

For Italy, the critical juncture only came in the early 1990s—although there was some incremental change before—with the collapse of the frozen postwar political system that followed the fall of the Berlin wall. The most significant and arguably only moment came with the country's herculean effort to join the EMU on time, which succeeded largely because of political leaders' ability to use the threat of not acceding to EMU to overcome the seemingly irreversible 'path dependence' of state paralysis, adversarial labor relations, and out-of-control welfare spending. Success came through a mix of coordinative discourse with the unions that went all the way down to the rank and file (Locke and Baccaro 1999) and communicative discourse to the general public focused on intergenerational justice with regard to welfare reform and questions of pride with regard to joining EMU in the first round, especially if Spain were to join (Radaelli 2002).

The European Union has played an important role in the policy domain as well, if only because the increasing competition related to economic Europeanization pushed all European member-states to modernize and adjust to globalization as well. Europeanization has also exerted increasingly strong pressures for policy reform, in particular since the 1990s, with the push toward further deregulation in a wide range of business sectors, with more strict enforcement of competition policy and limits on state aids, and with the liberalization of public service utilities and procurement. Differences between the three countries with regard to the EU are numerous: On leadership, Italy and Spain have mostly been followers while France has led the EU in reform, in particular in the early years until the 1990s and since 2008 in the EU response to the economic crisis. On regulatory compliance, Italy has consistently been a laggard with regard to following EU prescriptions and implementing directives, largely as a result of a lack of political and/or administrative capacity. Although France has not had a much better record, this has been more a question of political will, since when pressed it has the capacity to implement quickly and effectively (Schmidt 2006, Ch. 2; Falkner et al. 2005). Spain, by contrast, has a better record in many areas, with better administrative capacity than Italy and greater political will to implement than France. It tends to encounter problems mainly where domestic politics are at issue, in particular where the regions and/or the social partners have concerns (Falkner et al. 2005; Börzel 2002).

Levels of Europhilia also differ somewhat. Italy has had a consistently high level of enthusiasm for the EU until recently, with a strong communicative discourse about the EU and its benefits that helped it enter the EMU, as noted above. Although the French too maintained a high level of political support for the EU over time, if not quite as high as the Italians, political leaders since the mid 1990s have generally not engaged in much communicative discourse about the EU at all—other than blame-shifting on policies. The results of the French referendum on the Constitutional Treaty in 2005 are testimony to the problems with the lack of any such positive discourse, as well as to the public's concerns with the national impact of the EU's policies and institutions (Schmidt 2006, Ch. 4, 2007). Spain, it should be noted, is one of the few countries that also held a referendum on the Constitutional Treaty, with a 76% yes vote, but with an extremely low turnout of 42% of the electorate.

It is perhaps not surprising that, in response to a Eurobarometer survey in May 2010 at the very moment that the EU was taking action to try to resolve the sovereign debt crisis, the Spanish tended to be much more positive about the EU's ability to take effective action against the effects of the financial and economic crisis, at 33 percent, than just six months later, when they dropped 10 points, to the EU average of 23 percent. Italians scored as positively on the EU's ability in May, but dropped much less, only 4 points by November 2010, to 29 percent, while the French remained steady and low, at 22 percent (Eurobarometer eb73 2010, eb74 2011). Notably, in November 2010 a majority of Spaniards (58%) rated the EU's as ineffective in combating the crisis, as did a smaller majority of French (51%), by contrast with a majority of Italians who rated the EU as effective in combating the crisis (Eurobarometer eb74 2011)—arguably because they had not been as severely attacked by the markets for their sovereign debt, by contrast with Spain and despite predictions to the contrary. With regard to the impact of the crisis on poverty, however, all three countries' populations felt that it was increasing in the areas where they live, with 83% in France (despite the fact that it has been least hard hit), 75% in Italy, and 69% in Spain against an EU-27 average of 60% and the UK at 36%--suggesting for the latter that the crisis simply hadn't registered as yet, and credit was still flowing (Eurobarometer flash eb289, wave 4, 2010)

ECONOMIC PROFILES AT THE TIME OF THE CRISIS

All three countries were hit by the crisis, but France largely sailed through by comparison with the other two across a wide range of economic indicators (see Table 1). Italy came into the crisis in worse shape on most of its economic fundamentals than

France or Spain, but surprisingly it fared better than Spain in the end, despite the fact that the latter had its house in better order economically just before the crisis.

[Table 1 about here]

Once the economic crisis hit, Italy experienced the most dramatic drop in economic growth, France the least, and appreciably less than the European Union's average. Moreover, while Italy's debt was out of sight, making it second only to that of Greece in 2009, France's was respectable at slightly higher than the Eurozone's average, while Spain's was the lowest. Spain's problem was its deficit, at a dangerous high, by contrast with Italy's comparatively modest level, and France's marginally higher one (see Table 1). On the positive side for Italy, in contrast, have been the levels of business and household indebtedness and the leverage of the banking system, which continue to be lower than in other European countries—e.g., household debt was 57 percent of disposable income in 2008, compared to an EU average of 93 percent, while a high percentage of government bonds are held by Italians. The liquidity ratio of Italian banks was not worrisome either. All of this helps explain why at the inception of the financial crisis Italy was not in the kind of trouble of some of the Central and Eastern European countries, other PIIGS like Ireland and Spain, or the UK. And in 2010, it also explains why, despite its high level of public debt, it was not threatened in the sovereign debt crisis in the way in which Spain was as a result of its high deficit and slowing economy.

On almost all measures related to competitiveness, moreover, France has notably been in the best shape, while Spain does marginally better than Italy. This includes relative unit labor costs in manufacturing, in which France's were highly competitive by contrast with those of both Italy and Spain (see Table 1). On foreign direct investment, moreover, both inward and outward, France has done significantly better in volume and upward trajectory over time, while Spain has had a higher volume and better trajectory on outflows since 2006 than Italy (see Figures 1 and 2).

[Figures 1 and 2 about here]

In addition, on a number of indexes ranking business competitiveness, France was way ahead of both Italy and Spain, while Spain was ahead of Italy (see Table 1). On the ease of doing business, for example, while France was not so good at number 31, by contrast with the UK's ranking of 5 and Germany's ranking of 25, but this was still a lot better than Spain's 62, let alone Italy's 78, which was a least better than Greece's 109 (World Bank 'Doing Business' 2010). On corruption perception, France, at 6.9 out of 10 (with 10 the best score), came below the UK's 7.7 out of 10, but it was still marginally ahead of Spain, at 6.1, and again both were way ahead of Italy, down at 4.3, which was again ahead of Greece's 3.8 (Transparency International Corruption Perceptions Index 2009). On competitiveness, finally, France was 25 to Denmark's 5 and the UK's 21 (where 1 is the top score), while Spain came in at 39 while Italy at 50 was only just above Greece's 52 (World Competitiveness Yearbook 2009).

On the labor side, moreover, workers were in much worse shape in Italy and Spain than in France in terms of growth in their real wages over time—and France was itself not very good—making the effects of the crisis even worse for workers in the two other countries (see Figure 3). Whereas in France growth in real wages was flat, at around 1 percent on average from 1986 on, Italy's was close to double that between the mid 1970s and 1990, but then dropped to negative growth in the early 1990s, to 0 growth through the rest of the decade, and then up by only a quarter of a percentage point in the 2000s. The story was similar in Spain, although here the drop in wage growth began in the second half of the 1990s.

The most important cause for concern for all three countries, however, is in the labor market. Unemployment has been the most serious problem, although not as serious for Italy or even for France as it was for Spain, which hit a fourteen year high of 21.3% at the end of March 2011 (see Table 1). Confirming this reality is a September 2010 Eurobarometer study that found that whereas in Spain three quarters (75%) of respondents knew someone who was neither related nor a colleague who had lost a job and a quarter (24%) of respondents had either themselves or their partner lost a job, fewer than half of Italians (40%) knew someone who had lost a job and less than a tenth (8%) had had that experience themselves, while only slightly above a quarter (27%) of French knew someone who had lost a job and only slightly over a twentieth (6%) had themselves had the experience, by contrast with an EU-27 average of 40% and 11% respectively (Eurobarometer special eb741, 2010)

Spain's unemployment problems are aggravated by its high rate of temporary work (albeit down over 8 points from a high of 33% due to the destruction of 1.44 million temporary jobs since fall 2007—Bentolila et al. 2010), which is way above the French and Italian rates (see Table 1). Youth unemployment is even worse, with Spain again way beyond the other two countries, while Italy is the worst on female employment, at more than 13 points below the Lisbon target, and even farther behind France (see Table 1). The differences between the three countries in terms of social cohesion can also be seen in the indicators on levels of inequality and generosity of social transfers. The ratio of inequality of income distribution in 2009 in France was significantly lower than in Italy and Spain. Moreover, the at-risk-of-poverty rate *after* social transfers in Italy and Spain were a good deal higher than in France (see Table 1).

Considered together, these figures alone tell us a lot about the differences among these SMEs. While France can be seen to have 'embedded liberalism,' with strong state regulation that seeks to promote equality along with markets that work efficiently, Italy and Spain have 'embedded illiberalism' in which strong state regulation undermines both market efficiency and equality, by hindering market performance in favor of powerful social groups (Blyth and Hopkin 2011).

When the economic crisis hit, then, all three countries faced significant challenges. But the problems of Italy and Spain were a lot more serious than those of France, and therefore their need for reform. This was clear also in public opinion. In May 2010, 91 percent of Spaniards agreed that their country needed more reforms to face the future as opposed to 78 percent of Italians and only 58 percent of French, rather accurately reflecting the depth of the Spanish crisis as opposed to the still serious Italian and minimal French crisis (Eurobarometer eb73 2010). By September, however, the Italians had shot up to 90 percent in agreement that their country needed more reforms to improve performance, just behind 92 percent of the Spanish, but the same 58 percent of the French (Eurobarometer Flash eb36 2010).

As for action, by the end of May 2010, the governments of all three countries had agreed, however reluctantly, to follow the German and EU lead in imposing major budgetary austerity, which was to be particularly bad in Italy and absolutely draconian in Spain, thereby further reducing their margins of maneuver with regard to addressing problems of inequality, social exclusion, and unemployment. Public response to the reforms suggests that citizens were for the most part not happy with them. Interestingly, however, the Italians on average saw themselves as more positively affected by the reforms than the Spaniards, and the Spaniards more than the French, who saw themselves as much more negatively affected than the Spaniards, let alone the Italians. (see Table 2). These differences may, of course, have less to do with the actual reforms than negative views of government leadership, in particular in France but also in Spain, or positive views when any reform occurs, arguably the case in Italy, where there had been so few real reforms for over a decade that any reform at all was seen as an improvement.

[Table 2 about here]

THE CRISIS IN FRANCE, ITALY, AND SPAIN: THE GOOD, THE BAD, AND THE UGLY

France, Italy, and Spain were all differentially affected by the crisis, largely due not only to their economic fundamentals going into the crisis but market perceptions of their capacity to cope with the crisis as they went along. All three countries responded quickly to the call for stimulus packages but then all did relatively little in the way of structural reforms until the 2010 sovereign debt crisis hit, at which point each instituted austerity packages. France, all in all, had a pretty good crisis, Italy had a pretty bad crisis, and Spain's was downright ugly.

France 2008-2010: A Pretty Good Crisis

France could be said to have had a pretty good crisis. Not only were the economic repercussions not as dire as those of Italy, let alone Spain, but French policy responses were also swift and largely effective, with France's reasonably generous welfare state acting as an 'automatic stabilizer' to cushion the impact of the crisis. France also exercised real leadership in European and global forums. In response to the financial market meltdown in 2008, French President Sarkozy, as President of the EU, pushed for strong state intervention and international as well as European coordination. In response to the sovereign debt crisis in the first half of 2010, he was most active among European leaders in arguing for a bail-out for Greece and was himself largely responsible for overcoming Chancellor Merkel's opposition to the Greek bail-out as well as to the €750 billion loan guarantee mechanism, the European Financial Stability Facility (EFSF), designed to shore up other vulnerable member-states in danger of contagion. But Sarkozy was unable to maintain his neo-Keynesian resistance to imposing budgetary austerity across Europe, and failed at that time in his push for 'economic governance' by the eurozone countries. At least partial success soon came with regard to economic governance, however, since by fall 2010 the Eurozone had agreed to a 'European semester' for the vetting of national budgets along with other measures to police one another's finances, and not just those needing a loan bail-out (see Schmidt 2010).

Sarkozy's activism is all the more interesting for our purposes in that he had won election in 2007 on a campaign platform as close to market liberalism—or the "Anglo-Saxon model" of capitalism—as imaginable for a French presidential candidate. But once the crisis hit he changed his discourse entirely, becoming the champion of renewed 'state capitalism' through calls for greater interventionism at the national level and his push for coordinated state regulation of the market at the international. In the end, he produced neither the extreme market liberalism of his campaign promises nor the old-fashioned state *dirigisme* of his initial crisis discourse, although he did produce both liberalizing reforms and statist actions.

With regard to neo-liberalism, he neither held to the pure market ideology of a Margaret Thatcher, to whom he was initially compared by the British press, nor to her intransigence, given his willingness to negotiate deals, and the fact that those deals often undercut the substance of his pledged labor and social policy reforms. This said, Sarkozy did manage to institute a number of liberalizing reforms in the social arena, although this came at great political cost to him, without necessarily much in the way of cost savings for the economy. Most notable was pension reform, debated and passed in fall 2010. The bill, which raised the minimum retirement age form 60 to 62 and from 65 to 67 for a full pension, was greeted by 'days of protest' that brought millions into the streets for mass demonstrations and strikes—including at oil refineries, which closed down 25% of gas stations in October. But although passage of the law in November was a major victory for Sarkozy, demonstrating the ineffectiveness of France's labor unions, it did nothing for his political support. Nor did it do wonders for the economy, since the reform itself is little more than a stop-gap measure—without a new pension reform bill in 2018, France will face a deficit of 100 billion euros by 2050. Moreover, a number of other policies meant to reform the labor markets were dropped, such as the proposal to create a 'single labor contract' to fix the insider/outsider problem, while his pledge to put public finances in order through cuts in public expenditure and debt could not be met. The big fiscal stimulus in 2008 on top of the tax reforms, such as creating the *bouclier fiscale* (fiscal shield) to cap at 50% the maximum tax payable by any individual (itself eliminated in 2011), also did nothing but increase the deficit.

As for his *dirigisme*, Sarkozy was no de Gaulle, nor even a pre-1983 Mitterrand. Even though his denunciations of free-market capitalism were a U-turn in terms of discourse, they did not result in sustained *dirigiste* policies. This is not because his discourse was mere rhetoric. It is because he was constrained in his policy initiatives, first and foremost, by the absence of state capacity to lead, given the elimination of the policy instruments of the past—e.g., macroeconomic instruments like its own currency and microeconomic ones like coordinated planning and industrial policy—as well as the lack of money to fund any serious industrial policy, given how much was being spent on the 'social anesthesia' welfare state (see discussion in Levy 2011). A second reason was that the EU was very watchful, and objected to any French policy that smacked of 'economic nationalism' or looked to undermine the 'level playing field' of the internal market—as when Sarkozy threatened to prevent the sale in France of Peugeot cars made in the Czech Republic in early 2009 or urged Renault to repatriate its operations to France. A third reason has to do with the fact that government not only lacked the capacity on its own to lead business but also the ability to impose on it, as was clear in the banking and automotive sectors (see Clift, this volume). Nonetheless, Sarkozy did engage in a number of statist actions, in particular with neo-Keynesian demand management and fiscal stimulus early on in the crisis as well as with a number of targeted interventions in the economy, such as ones to promote mergers among national companies and to halt foreign takeovers.

Sarkozy's quick response to the crisis enabled France to avoid the bankruptcies of the UK, the collapse of entire economic sectors as in Spain, and the dithering of the Germans. As of October 2008, he produced a 360 billion euro package in bank debt guarantees and capital injections for French banks and in February 2009 announced a further 26 billion euro stimulus package to protect the construction and automobile sectors, along with tax credits for the poorest families and 8 billion euros for spending on infrastructure. To deal with the deficit, moreover, his government passed a number of stimulus measures, including a clunker buy-back scheme, tax relief for small companies taking on new employees, tax credits for public-private partnerships, tax reductions for lower incomes and various investment credit schemes, amounting to over 1% of GDP. As for those most hard hit by the crisis, the government introduced a new welfare scheme, the *Revenu de Solidarité Active* (RSA), which provided the most disadvantaged with monthly payments of between €500 and €1000. All of these measures together produced the desired effects on the economy, with a rise in household consumption as well as a large increase in new car sales by the end of 2009, although it did little for unemployment, which increased from 7% to closer to 10% by mid 2010.

Sarkozy had also promised to 'protect the French people *in* globalization,' insisting that the EU needed to protect Europeans and act against the '*delocalisation'* or offshoring, of jobs. This is a theme that resonated with the French, who are also afraid of 'insourcing,' at least when it came to the infamous—and non-existent—'Polish plumber,' whose invocation just prior to the 2005 referendum on the Constitutional Treaty helped doom it to failure (Schmidt 2007). A recent Eurobarometer poll (eb73 2010) suggests that the French have not changed their views on globalization, since only 29 percent of French felt that the EU protected them against the negative effects of globalization, as opposed to a whopping 50 percent of Italians, and 42 percent of Spaniards, on a par with the EU-27 average. But although much of Sarkozy's activism was focused on reassuring the French that he can and will protect them, they are not convinced.

Sarkozy himself is at the very bottom in popularity, in 2011 at the lowest for any President of the Fifth Republic (at 30%), having started his presidency on a high in his early months in office (67% in summer 2007) to very low a year later (36% in May 2008). But even though the public is less and less pleased with the government's performance, the Socialists offer little alternative—in particular since Dominique Strauss-Kahn had to drop out of the presidential race and his job at the IMF because of his indictment in the US for attempted rape. Most worrisome is the rise of the extreme right under the seemingly more moderate daughter of the founder, Marine Le Pen, who has managed to hit many of the issues of concern to workers toward the bottom of the ladder, such as unemployment, immigration, and the EU.

Italy: A Pretty Bad Crisis

Not surprisingly, no praise of the kind heaped on Sarkozy for his leadership in the crisis was forthcoming for Italy or its leaders. Not only did Berlusconi seemingly spend his time mainly with seventeen year olds, at their birthday parties or in their beds, while Sarkozy exercised leadership in the EU, but the Italian economy also contracted a lot more than the French, and the government did a lot less to try to counteract this in its stimulus package. This said, Italy was not in as dire straits as many other European countries in 2008, including Spain, because it did not suffer from a housing bubble. Its high public debt, however, was a time-bomb that endangered it increasingly during the sovereign debt crisis of 2010.

The Italian government's discourse in response to the international crisis oscillated between saying on the one hand that little needed to be done, with optimistic appeal to the inherent virtues of the economic system, and repeated calls to austerity and sacrifices on the other. Berlusconi's communicative discourse shifted between "It's a dramatic crisis" (*Il Corriere*, 23/11/2008) and "We will get out earlier from the crisis; we have a strong banking system, our banks have not been involved in toxic securities, Italian families are high savers and each Italian who loses his job gets a 70% compensation …" (*La Stampa*, 23/02/2009). But while the talk was reasonably positive, the action was not: the structural problems and inefficiencies inherited from the past were not tackled at all between 2008 and 2010. Moreover, what few measures that were taken were done with no coordinative discourse with the social partners—unlike in the 1990s—nor with the Parliament because of the "command and control" decision making style of the Premier on the one side, and the rigid European budgetary constraints on the other.

Soon after the elections, in 2008, Berlusconi did fulfill some of his electoral promises, such as abolishing the municipal tax on the first property (ICI), reducing taxes on overtime work, introducing a 'social card' for poor citizens; passing a reform of the public sector in an effort to spur competitiveness and control performance; and introducing a larger fiscal burden for rich companies, like banks, energy and oil companies. These measures were part of Berlusconi's plan to communicate to the public a new image of the government as an "active and tireless player" (as opposed to the inertia of the left) and as defender of "national interests," in tune with the values of the right-wing components of his coalition. An emblematic example of this was the state rescue of Alitalia, by blocking the takeover by Air France and then facilitating Alitalia's takeover by a group of Italian private companies led by the bank Intesa San Paolo, at immense cost to the state (300 billion Euros plus the financing of unemployment benefits), with uncertain results, since it is unclear whether the new company will be able to compete internationally.

Other measures undertaken to shore up the banks involved the emission of secure bonds (the "Tremonti bonds"), government entry into the capital of some banks, and the assurance of emergency liquidity assistance by means of the Bank of Italy. As for the welfare state, in 2008 some special social shock absorbers (*ammortizzatori sociali in deroga*) were introduced. Moreover, regional governments were granted the power to "complement" state intervention with their own social shock absorbers "in departure" from national legislation (Curzio 2009; Jessoula and Alti 2010). These subsidies were focused in particular on small firms, especially in the regions of the Third Italy, which were hurting as a result of the crisis and global downturn, many of which have closed as a result of it—with 9,255 in 2009, 23% more than in 2008 (Cerved—*Le Monde* March 9, 2010).

Only in 2010 as the Greek crisis unfolded did Berlusconi move beyond his domestic focus and attempt to be more present on the international stage. This may be explained in part from the fact that his popularity, traditionally quite high, had diminished from to 57% to the historical minimum of 39% by Spring 2010 (CIRCAP 2010). This is when his pronouncements on the crisis multiplied in all the media, especially by emphasizing the robustness of the household and private sector, such as: "By putting together the public and private debt, we are the richest country in Europe, slightly above Germany…" (*Corriere*, May 2001). At the end of May 2010, after the historic resolutions of May the 9th on the Greek crisis, when EU Commission President Barroso came to Italy, Berlusconi switched discourse, now speaking of the "syntony of ideas and values" with the President of the Commission, and on the shared belief that European countries had lived up to then beyond their means and thus needed to be profoundly reformed financially.

For all this, however, Berlusconi had only reluctantly agreed to the turn to austerity designed by the Minister of the Economy Tremonti. The anti-crisis legislation included a special "fiscal shield" to encourage the return of financial capitals illegally kept abroad (providing to pay a flat rate tax of 5%) which was to be used to finance special measures against the effects of the crisis. In addition, 24,9 billion Euros of cuts were to be obtained in 2010 by draconian reductions in government transfers to sub-national governments; stricter rules on eligibility for invalidity pensions; the increase of pensionable age for women in the public sector; the abolition for 3 years of the automatic wage increase for all public employees' and a job freeze; a wage reduction for top public managers and magistrates; the reduction of benefits and reimburses for ministers, top politicians and political parties; stricter controls on pharmaceutical expenses on behalf of the regions; a special tax for tourists staying in Rome and the extension of toll motorways; and more.

Although these measures were greeted by a series of strikes while local governments sought to negotiate revisions, the government ignored them and pushed the measures through again via a double call for the vote of confidence. But however unpopular the government may have become—in particular in light of the *bunga-bunga* scandal (parties in which Berlusconi and his guests cavorted with young women, one of whom was 17)—the opposition seemed to provide no alternative, at least up until the recent local election, when the left took Milan and held Naples in what was generally seen as a referendum on Berlusconi himself. The center-left's main party, the Democratic Party, is internally fragmented and unable to reorganize around a clear political identity, and the unions are divided. Moreover, the center right itself is increasingly divided, although attempts to reform or to bring the coalition down—mainly by President of the National Assembly Fini—have not succeeded. Italy, as a result, is likely to continue to muddle through with incremental strategies, now molded by a new austerity ideational paradigm imported from the EU, and without any clear strategies to reverse the downward trend in economic growth and competitiveness.

Spain: A Pretty Ugly Crisis

If France's crisis was pretty good and Italy's pretty bad, then the only label we could attach to Spain's crisis is ugly. This is a country that seemed to be doing everything right just before the crisis hit, with its economic fundamentals in great shape—low debt, low deficit, a comparatively high growth rate, and a government surplus. The very sources of economic growth, however, turned out to be the causes of precipitous decline once the financial market crisis hit. Spain, like Italy, suffered from a lack of competitiveness aggravated, in its case, by the fact that it was much more of a draw for foreign investment. This encouraged wages to grow much faster than actual productivity, and a massive decline once foreign capital pulled out in the wake of the crisis. Moreover, much of private sector investment went not into areas that would have made the economy more productive but rather into housing. Spain experienced a massive construction boom and housing bubble fueled by easy credit that burst with the global crisis. The real pain, however, was to come in 2010, once contagion from the sovereign debt crisis in Greece spread to all the PIIGs, and in particular to Spain, forcing very painful austerity measures.

At the onset of the economic crisis, aside from the usual stimulus package and bank bailout fund, the Spanish government did very little—other than to extend unemployment benefits—and had little sense of how bad things would get two years down the road. Spain, like Italy, had a high level of household savings and comparatively low levels of household debts. Moreover, it did not have the kind of exposure to the toxic US subprime market of some French banks, due to the Bank of Spain's prudent supervision, which had also ensured that as of May 2010 it had yet to spend any of the money set aside for bank bailouts. The result was complacency in the face of toxic domestic paper, in particular that held by the smaller savings banks, the *cajas de ahorros,* the forty-five lenders that account for about half of the Spanish financial system. These are the banks that were highly vulnerable to the crash in the real estate market, in particular as the bad loans and defaults on mortgages rolled in in the wake of increasing unemployment, as it climbed to over 20 percent (Royo 2011). Moreover, Spain was much more in jeopardy in the bond market than Italy because foreign investors held a much higher percentage of its bonds. All of this came to a head in 2010, once the Greek-related sovereign debt crisis hit, as Spain became the next target of the markets, which were concerned about the weakness of Spain's banking sector and its excessively high deficit.

By mid July 2010, however, the market pressures seemed to have eased, when Spain's auction of 15-year bonds yielded a relatively favorable rate of 5.1 %. The markets appeared to have been calmed by austerity measures introduced by the Zapatero government that included a 5% pay cut for the civil service and a pledge to cut public spending down to 6 % of GDP in 2011 from a 2010 high of over 11% and down to 3% by 2013--a freezing of pensions as well as a plan to raise the retirement age from 65 to 67. His plan to restructure the *cajas*, by reducing them by at least a third, and efforts to reform the labor markets, also seem to have brought back some confidence. The fact that five of the seven banks that failed the stress test in August 2010 were *cajas* did not cause Spain problems, since this had been expected. And the drive to recapitalize the banks with 16 billion euros in state loans was deemed sufficient. The ongoing problem for Spain has been that every time another country needs to get a loan bail-out, the cost of its own refinancing needs through the financial markets goes up, along with worries about its ability to withstand the onslaught.

All this has been very difficult for the Zapatero government. Zapatero's government is very weak, having been reelected without an absolute majority, and because Zapatero himself has become very unpopular. Moreover, having been first elected in 2004 on a pledge to reform the country by making it more socially democratic, and having passed a whole range of expansionary social welfare measures, the government then found itself having to institute austerity measures with cuts across the board. Pushed in mid May 2010 by the IMF, the EU Commission, and even President Obama to take 'resolute action' to avoid a meltdown that could have jeopardized the eurozone in a way that a Greek default could not, since Spain really was 'too big to fail,' Zapatero finally did go for a vote on a radical austerity budget, which he won by only one vote. In the process, he was criticized on all sides—former allies as well as the right wing opposition—for confused handing of the economy. And this continued through 2011, as he instituted even more austerity measures in response to pressures from the markets and fellow EU member-states. Moreover, he has been very much between a rock and a hard place, since he needs to balance the need for austerity with the need to use public spending to promote economic growth—which helps explain his decision in 2010 to restore 500 million euros in abandoned state infrastructure spending. Politically, the opposition has been making the most out of this. But whether they could do better if or, rather, when they win the next election is open to question. As it is, public disenchantment has grown tremendously, so much so that by late spring 2011 a day in, day out sit-in movement by the young unemployed had started in the main squares of Spanish cities that shows no signs of abating.

CONCLUSION

The state-influenced market economies of France, Italy, and Spain, in conclusion, have all suffered from the crisis, but at varying levels of discomfort. France had a pretty good crisis economically, with its growth rate hit less hard than other European member-states and its industry in decent shape, although unemployment has risen significantly. Its main problem is political, since although the government was capable of exercising leadership outside of the country, this has been less and less the case inside the country. Italy's crisis was by contrast pretty bad, with the slowdown in economic growth, hitting in particular the small and medium-sized enterprise, and the rise in unemployment. Here too, however, a large part of the problem is political, as the Berlusconi government has exercised little leadership inside the country, and not even tried to promote better business-labor coordination, a necessity in this compound polity. Spain's crisis was quite ugly by comparison with that of either France or Italy, given the bursting of the housing bubble that was responsible for much of the economic growth of the country, and that brought with it rising unemployment and increasing mortgage defaults. The question here is whether the Zapatero government will be able to exercise the leadership necessary to maintain the social peace while gaining parliamentary agreement for the draconian austerity measures assumed needed to calm the markets without destroying economic growth. This is a very tall order indeed!

In these three state-influenced market economies, then, what defines them in terms of their political economic institutions in contrast to liberal and coordinated market economies is the central role of the state, and how business and labor depend upon the state to solve their coordination problems. Otherwise, business is generally even more autonomous than in LMEs at the same time that it is also more network-connected through state-related or family-based ties, bringing it closer to CMEs. And labor is more dependent on the state for coordination than in CMEs, whether the state leads corporatist concertation where unions are high in membership and organization (as in Spain and Italy in the 1990s) or acts on its own to liberalize/moralize the markets where unions are weak in membership and/or organization (France and Italy in the 2000s).

The state, then, matters a lot in SMEs, and much more so than in LMEs and CMEs, as a state of mind as much as the state in action. Moreover, when the state reforms, it is itself as much the object of reform as anything else—in the way in which it itself regulates business, organizes labor, or manages the economy. Moreover, the state impels reform in business and labor since societal actors are generally more reactive than proactive in SMEs. But for reform to be accepted, state leaders need not just good ideas but a persuasive discourse, although in simple polities like France this demands a stronger communicative discourse to the general public and in more compound polities like Italy and Spain it also requires a stronger coordinative discourse with the social partners and the regions (especially Spain). With all this attention to the state, however, it is clear that political leadership—meaning the quality of political leaders---matters along with the probity and competence of state officials. In all three countries, as we have seen, there are significant problems with the quality of the leadership, but arguably the most in Italy, while the probity and competence of the administration is also in question, but here mainly in Italy, due its much higher levels of corruption and incompetence.

Why France's crisis was pretty good, Italy's pretty bad, and Spain's pretty ugly cannot of course be explained solely by reference to differences in political economic institutions, or even with the addition of political institutions, policies, or politics. Economic realities, historical trajectories, policy legacies, and pure dumb luck—as in why the markets chose to worry about Spain rather than Italy—are all equally important. This is why we have provided a qualitative discussion of the wide range of issues in play during the crisis in each of these countries. This should also demonstrate that however useful it is to identify countries in terms of their institutional or even ideational characteristics, there is no substitute for in-depth, country specific analysis.

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Table 1: Italy, France, and Spain compared on a range of measures

	France	Italy	Spain	EU 27
GDP 2009 growth[2]	-2.6	-5.0	-3.7	-4.2
Debt as % GDP 2009[2]	77.6%	115.8%	53.2%	73.6%
Deficit as % GDP 2009[2]	-7.5%	-5.3%	-11.2%	-6.8%
Relative unit labor costs 2009[2]	102	117	115	
Unemployment 2010[1]	10%	8.4%	20.3%	9.6%
Temporary Employment 2010[1]	13.5%	12.5%	25.4%	13.5%
Youth unemployment 2009[1]	23.5%	25.3%	39.2%*	15.6%
Female employment 2009[1]	60.1%	46.4%	52.8	58.6
At-risk-of-poverty rate after social transfers 2009[1]	12%	19%	18%	16%
Ease of doing business 2009[3] (ranked from 1 down)	31	78	62	
Corruption perception 2009[4] (top score 9.4 out of 10)	6.9	4.3	6.1	
Competitiveness perception ranking 2009[5] (1 = best)	28	50	39	

*Figure for August 2010

Sources: [1]Eurostat 2010; [2]OECD 2010; [3]World Bank 'Doing Business 2010 http://www.doingbusiness.org (based on period June 2008 through May 2009); [4]Transparency International Corruption Perceptions Index 2009 http://www.transparency.org ; [5]World Competitiveness Yearbook 2009 http://www.imd.ch/research/publications/wcy/upload/scoreboard.pdf

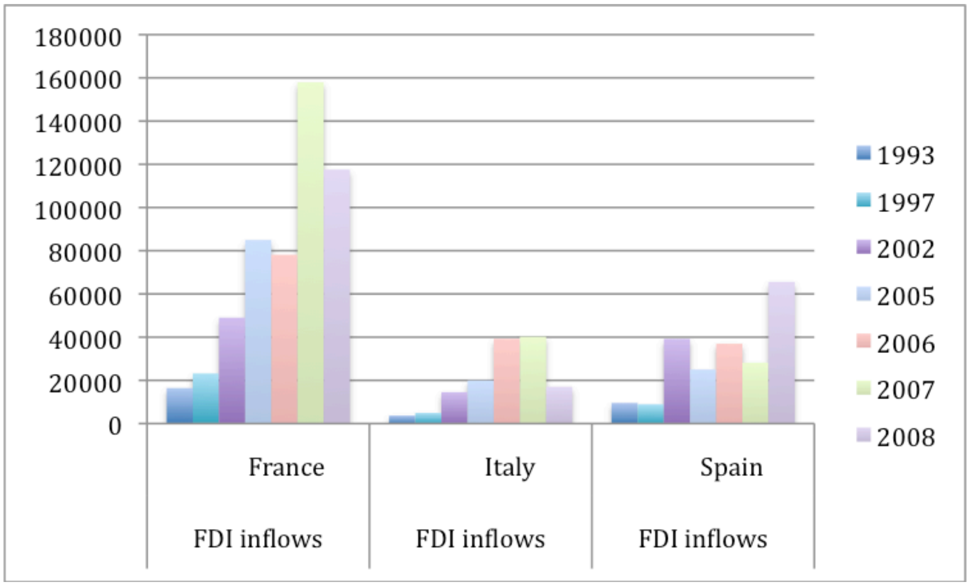

Figure 1: Foreign Direct Investment Inflows

Source: Unctad 2009

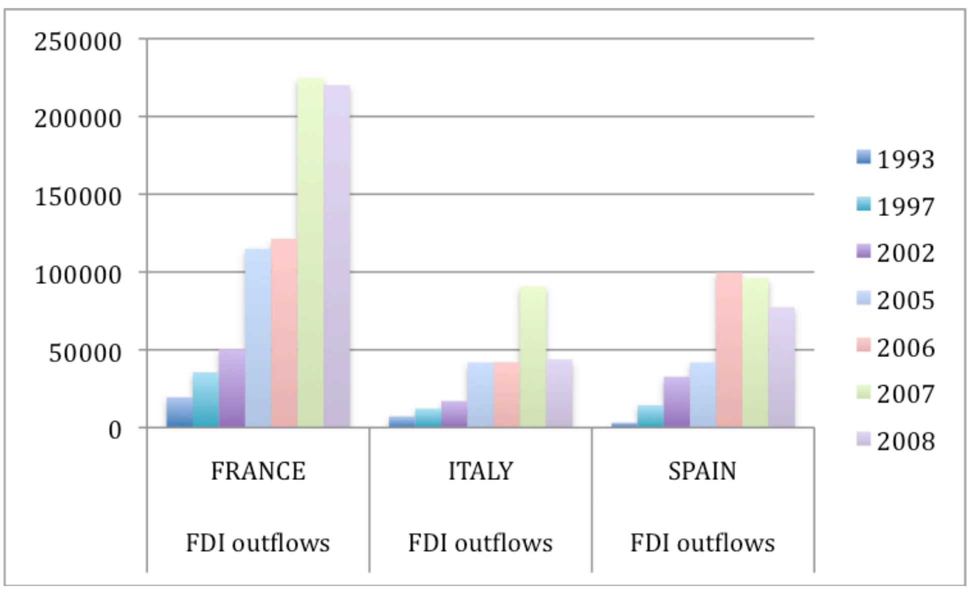

Figure 2: Foreign Direct Investment Outflows

Source: Unctad 2009

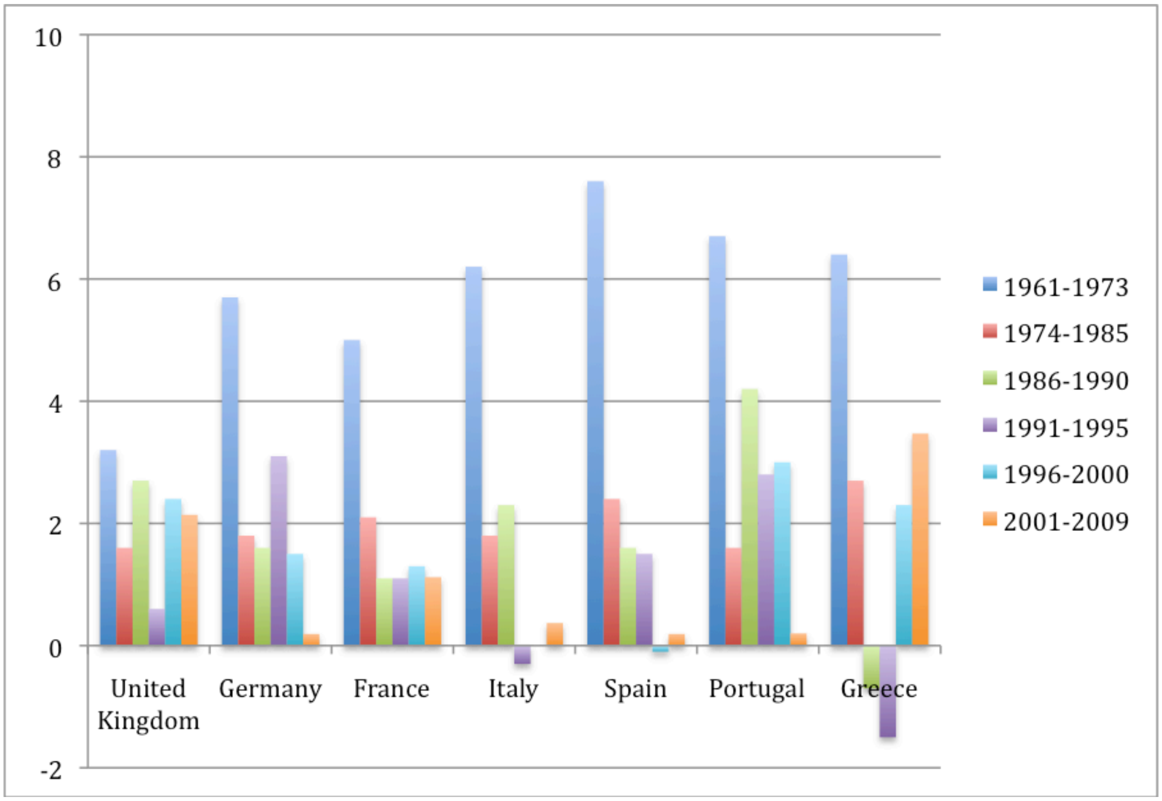

Figure 3: Growth in Real Wages 1961 through 2009

Source: http://ec.europa.eu/economy_finance/publications/publication12534_de.pdf

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Table 2: Perceptions of the effects of sectoral reforms on respondents' personal lives by country and by sector

	France		Italy		Spain	
	Affected rather negatively	Affected rather positively	Affected rather negatively	Affected rather positively	Affected rather negatively	Affected rather positively
Labor Market	38	16	35	24	38	9
Health System	59	9	21	32	20	17
Pension System	37	11	35	12	28	8
Social Security System	49	9	16	11	19	17
Market Reforms	47	10	9	35	44	16
Taxation	41	11	27	16	38	15
Education Systems	41	11	27	16	38	15
Reforms in General	42	17	18	19	28	21

Source: Eurobarometer Flash eb306—The euro area, 2010