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**E Pluribus Unum?  
Varieties and Commonalities of Capitalism**

Wolfgang Streeck



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## **Abstract**

The paper reviews the origins of the comparative study of capitalism and of the diverse approaches applied to it in contemporary political economy. It distinguishes four models accounting for differences in the institutional make-up of national capitalist economies, which it refers to as the social embeddedness, power resource, historical-institutionalist, and rationalist-functionalist model, respectively. Special attention is given to the rationalist-functionalist account of capitalist variety and its reception in the research literature. The paper concludes with remarks on the likely effect of the global financial crisis after 2007 on theories of political economy in general and of “varieties of capitalism” in particular. It argues that in future the commonalities and interdependencies of national capitalisms deserve and are likely to receive more attention than their differences.

## **Zusammenfassung**

Der Aufsatz beschreibt die Ursprünge der vergleichenden Kapitalismusforschung und deren unterschiedliche Ansätze in der gegenwärtigen politischen Ökonomie. Vier Modelle zur Erklärung der Unterschiede in der institutionellen Verfassung nationaler kapitalistischer Systeme, die als Einbettungs-, Machtressourcen-, historisch-institutionalistisches und rationalistisch-funktionalistisches Modell bezeichnet werden, werden miteinander verglichen. Besondere Aufmerksamkeit gilt dem rationalistisch-funktionalistischen Modell und seiner Rezeption in der Forschungsliteratur. Der Aufsatz schließt mit Bemerkungen zum wahrscheinlichen Einfluss der globalen Finanzkrise nach 2007 auf die Theoriebildung in der politischen Ökonomie und insbesondere die „Varieties of Capitalism“-Debatte. Vermutet wird, dass in Zukunft die Gemeinsamkeiten und Interdependenzen zwischen den nationalen kapitalistischen Systemen mehr Aufmerksamkeit erfordern und erhalten werden als die Unterschiede.

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## Introduction: E pluribus unum?<sup>1</sup>

Nowhere on earth have the economic system and the essence of capitalism reached as full a development as in North America. (Sombart [1906]1976: 4)

Will the future social structures of Europe and America turn out the same or different? If the same: is America or Europe the “land of the future”? (Sombart [1906]1976: 24)

All the factors that till now have prevented the development of Socialism in the United States are about to disappear or to be converted into their opposite, with the result that in the next generation Socialism in America will very probably experience the greatest possible expansion of its appeal. (Sombart 1976 [1906]: 119)

That capitalism should take on different forms in different countries need not be surprising. If the economy is, according to Karl Polanyi, an “instituted process” (Polanyi [1957]1992), it follows that capitalism, being a specific kind of economy, must be based in an institutionalized social order by and into which it is formed and organized. Social orders, however, differ in space and change over time. Private property, free markets, wage labor, joint stock companies, and modern finance emerged<sup>2</sup> in or spread to different historical contexts and local traditions, institutions and power structures that could not but imprint themselves on the ways in which capitalism became “instituted” in different societies.<sup>3</sup>

The story of capitalist variety and of the theories devised to account for it is a complicated one, deeply intertwined as it is with domestic and global politics and the unfolding of the very history of capitalism itself. It is as much a subject for the sociology of knowledge as it is a theme for economic sociology. This paper discusses current theories of the variations between capitalist national political economies. I begin, however, with reflections on the origin of the theme in nineteenth-century social science, on the premise that

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- 1 *E pluribus unum* means “From many, one.” It appears on most US currency, as well as on Air Force One.
- 2 For a defining account of capitalism and its evolution, see Ingham (2008).
- 3 On the history of the concept of capitalism and how it has been used at different times in social science and public discourse, see Chiapello (2006). In brief, Marx did not invent the concept and seems to have employed the word only rarely. Its current usage derives mainly from Sombart and Weber. In the late nineteenth century, the term referred to a modern institutional configuration characterized by “the existence of an economic process oriented towards unlimited accumulation of capital, the importance of the firm as an agent of the system, private ownership of production resources, ‘free’ wage labour, free enterprise and competition, involvement of science in the process and increasing rationalization of economic activity” (Chiapello 2006: 36). While later the concept was appropriated by the Left, which gave it a polemical meaning, it was also adopted in the 1960s by American neoliberals, such as Milton Friedman, who used it with an aggressively affirmative connotation.

social theories, just like societies and their institutions, can be properly understood only in historical context. Next I reconstruct, in more specific terms, the successive moves in postwar accounts of political economy, first to a shared expectation of imminent convergence of differently institutionalized national capitalisms, or “industrial societies,” and then, by the end of the century, to a widespread belief in sustained political-economic variety or divergence. Following this I investigate the construction of the theories supporting such beliefs, in light of the criticism they have attracted in the meantime. Finally, I suggest that theoretical progress will require that more attention be paid to the commonalities of divergent capitalisms and their interdependent histories.

## 1 National differences: Past, present, future

One cannot write about capitalism without recalling Marx. It is probably true that he was the first “convergence” theorist, his general “model” of capitalism – in the sense of its most advanced version – being Victorian England, beyond which a unified socialist world society lay waiting. “The bourgeoisie,” Marx famously wrote in the Communist Manifesto,

has through its exploitation of the world market given a cosmopolitan character to production and consumption in every country. To the great chagrin of Reactionists, it has drawn from under the feet of industry the national ground on which it stood. All old-established national industries have been destroyed or are daily being destroyed ... In place of the old local and national seclusion and self-sufficiency, we have intercourse in every direction, universal interdependence of nations. (Marx/Engels [1848]1977: 222)

This does not mean that Marx did not recognize differences, at least for his time and age. For one thing, while he saw capitalism as universal, its politics, as long as it lasted, remained national:

Though not in substance, yet in form, the struggle of the proletariat with the bourgeoisie is at first a national struggle. The proletariat of each country must ... first of all settle matters with its own bourgeoisie. (Marx/Engels [1848]1977: 230)

But ultimately this was no more than an intermediate stage:

National differences and antagonisms between peoples are daily more and more vanishing, owing to the development of the bourgeoisie, to freedom of commerce, to the world-market, to uniformity in the mode of production and in their conditions of life corresponding thereto. (Marx/Engels [1848]1977: 235)

Secondly, while for Marx-the-theorist capitalism was the same thing everywhere, Marx-the-economic-historian understood that its emergence and ascendance was far from simultaneous and could, for this reason alone, take quite different forms in different countries, if only for an intermediate period of transition. In particular, Marx notes

that the history of “primitive accumulation” – the “expropriation of the agricultural producer, the peasant, from the soil,” which for him was “the basis of the whole process” – “assumes different aspects (in different countries), and runs through its various phases in different orders of succession, and at different periods. *In England alone, which we take as our example, has it the classic form*” (Marx [1867, 1887]1967: 669f.; italics added). In fact, the last chapters of the first volume of *Capital* are replete with references to national differences and international interdependencies. England is compared to Italy, where capitalist development took off later, and the English enclosures movement is explained by the economic opportunities created by “the rapid rise of the Flemish wool manufactures, and the corresponding rise in the price of wool in England” (Marx [1867, 1887]1967: 672). As for his native Germany, Marx considered its economic backwardness as an indication of general cultural backwardness and of a need to be rescued by the global progress of the bourgeois revolution from what the Manifesto calls “the idiocy of rural life” (Marx/Engels [1848]1977: 225).<sup>4</sup>

Of course, Marx’s was just one voice among many in a continuing debate on national differences and similarities that accompanied capitalist development from the beginning.<sup>5</sup> Throughout the nineteenth century, European countries compared themselves to each other, and were compared by their citizens, in a search for indications of their prospects in the international rivalry for power and preeminence, as well as for signs of coming convergence or lasting divergence, promising or terrifying as these may have appeared, depending on ideology and location. This story cannot possibly be told here. After Marx, the German fascination with England continued with Eduard Bernstein, the socialist revisionist, who considered English democracy and Victorian reformism a model for postrevolutionary Social Democracy, and with the liberal-bourgeois nationalist Max Weber. Differences between German and English industrial organization, labor relations, training regimes, technology, social policy, and the like were interpreted in terms of German backwardness, to be overcome by determined reformism, for the benefit of German labor (Bernstein 1899) or for German national survival in the coming wars (Weber 1895). Interestingly, whatever may have divided Bernstein and Weber, they no longer took it for granted, as had Marx, that the laggards in capitalist development would with time automatically catch up with the leaders: becoming like the English would take effort, but one that was very much worth making.

Just as England, and later the United States, was the country of reference for Germany, Germany was “the other,” and indeed often a mysterious other, for the British, and cer-

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4 For example, in *The German Ideology*, Marx and Engels declared with biting sarcasm that it was impossible for a materialist, that is, economically based or, in other words, modern conception of history to take root in Germany “because the Germans lack not only the necessary power of comprehension and the material but also the ‘evidence of their senses,’ for across the Rhine you cannot have any experience of these things since history has stopped happening” (Marx/Engels [1844]1977: 164).

5 Given that the rise of capitalism by and large coincided with that of nationalism, this is hardly surprising.



tainly also for France after its humiliation in the war of 1870/71. In 1885, the young Emile Durkheim was sent by the French government to Germany to study the enemy's presumably superior education system. The British never quite recovered from the shock of the World Exhibition of 1862, where for the first time they had to face technologically superior German machinery and other manufactures ("very good indeed," Sir Joseph Whitworth).<sup>6</sup> It was then, at the latest, that German "competitiveness," as it later came to be called, became a central topic of British political and economic discourse, a discourse that early on extended to what were perceived as differences not just in industry but also in social organization generally. How could a society whose traditionalism, authoritarianism, and collectivism contrasted so unfavorably to the Spencerian modernism, liberalism, and individualism (Spencer 1969 [1884, 1892]) of which Victorian Britain was so proud – how could such a society aspire to outcompete the most "progressive" society on earth? Was there something economically advantageous in social traditionalism? Had the progress of civilization destroyed economically valuable social resources? Was England already on the decline, like other empires in the past? Just as Tacitus had held up the virtuous Germanic barbarians to the decadent Romans of his time (Tacitus [98 AD]1894), growing segments of the British public began to wonder whether civilization had gone too far. Were the German savages, with their collective discipline and their authoritarian-interventionist state, better prepared for the impending struggle for supremacy between the nations of Europe?

Early on, perceived differences in social and economic organization between Germany and the Anglo-Saxon world were described in pairs of concepts, sometimes conceived as dichotomies, sometimes as continua, such as *Gemeinschaft* and *Gesellschaft*, collectivism and individualism, state and market, status and contract, or, from the German perspective, culture and civilization. Explicitly or implicitly, as we will see, they still figure prominently in contemporary constructions of capitalist variety. Moreover, Germany has remained the model alternative to standard capitalism, which continues to be ideally represented by Britain and, increasingly over time, the United States, regardless of the many differences between the two. Japan was admitted into the game only later, in the 1980s, when the "competitiveness" of Japan's manufacturing industry made itself felt especially in Anglo-American markets, and was put, with whatever justification, into the German box or assigned to the "German" end of a continuum between more or less "normal" capitalisms.

One explanation for the lasting prominence of the "German model" in the discourse on the varieties of capitalism may be the strong presence of German institutional economics, especially in the United States, in the formative years of the discipline at the end of the nineteenth century. The Historical School, and in particular the *Kathedersozialis-*

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6 In response, Parliament in 1887 passed the *Merchandise Marks Act* that required German products to be labeled "Made in Germany," to warn British customers to stay away from them. It is a source of lasting national pride in Germany that the measure backfired when, to the contrary, products with that label were sought out because of their assumed superior quality.



*ten* – the “socialists of the chair” – not only emphasized the role of institutions, thereby asking their non-German readers to acquaint themselves with “strange” practices in a faraway country, but also attributed a major role to the state and politics, quite unlike Anglo-American liberalism.<sup>7</sup> Later, of course, the progress of economics towards abstract universalism made empirical differences between institutions disappear behind prescriptive principles of ideal institutional design. As a side-effect, this relieved non-German economists of the need to learn about German peculiarities, and indeed about any foreign peculiarities.

To organize the discussion of national variety in capitalism, both its analytics and its normative implications and practical intentions, we may, like Albert Hirschman, distinguish between a social condition of market dominance, on the one hand, and one of the persistence of precapitalist forms of social organization, on the other (Hirschman 1982), taking the former to represent the Anglo-American and the latter the German or Japanese “model” of capitalism as they figure in the debate. Both positive and negative effects may be attributed to each of the two conditions (Hirschman 1982: 1481). The positive effects of Anglo-American-style market dominance are captured by what Hirschman calls the “doux-commerce thesis,” a view that we may, by and large, identify with authors such as Weber and Bernstein, and certainly with Spencer. The negative effects of markets, by contrast, are captured by the “self-destruction thesis” – which, of course, is most explicit in the theories of Marx and his followers.

As to conditions, or countries, in which precapitalist institutional forms remain influential, liberal reformers find mostly negative effects, as summarized in what Hirschman calls the “feudal-shackles thesis.” Here one would presumably locate someone like Alexander Gerschenkron ([1952]1992), but also Max Weber with his fear of accelerated bureaucratization in “Lutheran” countries and cultures lacking the proper Calvinist-ascetic “spirit.”<sup>8</sup> The most interesting case for our purposes, however, is when positive effects are ascribed to precapitalist institutions (what Hirschman calls the “feudal-blessings thesis”). Hirschman discusses such effects mostly in the negative, in terms of the possible *problems* that the *absence* of a feudal past may cause a society such as that of the United States. One can, however, turn the matter around, in the manner of British and, later, American observers looking at the rise of Germany and then of Japan as industrial powers, wondering whether a little more *Gemeinschaft* and a little less *Gesellschaft* might in fact be an asset rather than a liability, even – and indeed precisely – in the advanced industrialized world of the twentieth century (for Japan, see Dore [1983]1992). It is this intuition which still underlies much of today’s “varieties of capitalism” literature, although in Germany itself it took time to take hold, especially after Germany’s defeat

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7 Authors such as Adolph Wagner, Gustav Schmoller, and Werner Sombart were well known to early American economists and studied extensively by them.

8 As Claus Offe recently pointed out, Weber was what one could call a pessimistic convergence theorist in that he foresaw the United States becoming like Europe, which in his view would amount to the historical elimination of the last remnants of a free bourgeois way of life (Offe 2006).

in the First and Second World Wars.<sup>9</sup> In fact, as early as the 1920s economic progress became widely associated in Germany with Americanization, especially with large corporations, industrial engineering, and mass production.<sup>10</sup> Hardly anyone in Germany at the time saw competitive advantage in social backwardness, the latter being identified among other things with artisanal production in small, owner-operated firms. The powerful German metalworkers' union, DMV, kept sending delegations to Detroit to study Fordist and Taylorist "rationalization," which it regarded as welcome tools for increasing productivity and raising wages, as well as for overcoming the despotism of the foreman on the shop floor. At the opposite end of the political spectrum, the Nazis belied their anti-modernist and anti-cosmopolitan rhetoric by inviting Henry Ford, who of course was far from finding National Socialism and in particular National-Socialist anti-Semitism repulsive, to help set up the Volkswagen plant in Wolfsburg on the model of (and with used machinery from) Dearborn, Michigan.

## 2 From convergence to diversity

The two decades after World War II were the high time of convergence theory. Clearly this reflected the unprecedented economic superiority of the United States during the period, and its position as both the uncontested hegemon of the Western capitalist world and the envy of its Communist opposition. As Europe re-imported sociology from the United States, it gratefully received as part of the package a theory of social development, or "modernization," that as a matter of course identified the US as the model for all other countries to emulate.<sup>11</sup> In political economy, with the European economies destroyed and any German *Sonderweg*<sup>12</sup> discredited, theorists of modern-

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9 The claim that German traditions of social organization had, as early as the late German Empire, given rise to a distinct industrial order with specific competitive capabilities unmatched by the more liberal Anglo-American version of capitalism was made mostly retrospectively in the last third of the twentieth century. One of its most outspoken proponents is the historian Werner Abelshauser, who has described Germany as "the first post-liberal nation." Recently, Abelshauser has described the country and its economy as embarked on a "German road to the twenty-first century" (Abelshauser 2005).

10 It is important to note that, early in the twentieth century, Europe viewed the United States not so much as a country with free markets, but mostly as one with huge firms, giant trusts, and modern management in the Chandlerian sense. Contemporary European expectations that capitalism would become increasingly "organized" (Rudolf Hilferding), fully shared by early emigrants such as Schumpeter, were certainly not discouraged by observation, even close observation, of the American case.

11 For an especially impressive example see Talcott Parsons' treatise on "The System of Modern Societies" (1971).

12 *Sonderweg* means "special path." The term was invented by German nationalists to distinguish German modern society from other modern societies, especially in the West. Today it is used by "Westernized" anti-nationalists to label claims of German national distinctiveness as politically dangerous.

ization defined as economic growth, which was defined in turn as market expansion, claimed that there was one and only one path of industrial and, which was the same, of social progress equally suited for and equally desired by everyone (Rostow [1960]1990). Differences between countries obviously existed, but to the extent that they mattered, they could safely be assumed to be eliminated in the course of the world's consensual pursuit of the American way. Expectations of global convergence extended even beyond the West and the so-called "developing world" to include the Soviet bloc. Indeed, the USSR itself was found by prominent American scholars and policy intellectuals to be on its way toward a system of "pluralist industrialism" that looked conspicuously like postwar New Deal America.<sup>13</sup>

It was only in the revolutionary period of the late 1960s and early 1970s that convergence theory came to be challenged by new approaches emphasizing diversity and insisting on the possibility and, indeed, desirability of alternative paths of socioeconomic development (on the following, see Crouch/Streeck 1997a; Streeck 2006). The Vietnam War, the domestic upheavals in the US that accompanied it, and the end of the long era of benevolent US hegemony encouraged a new generation of social scientists, especially in Europe, to look for and explore possible alternatives to the standard American pattern of modern democratic capitalism. The rise of "Euro-Communism" and the events of 1968 and 1969 revived a traditional view of political action as collective choice between competing "ideologies" and ways of life. Students of comparative politics began to consider institutional differences between the US and other countries no longer simply in terms of how far the latter still had to travel to catch up with the former. Similar developments occurred in other social sciences, assisted by rapidly improving access to foreign countries and fast-growing information-processing capacities making cross-national comparative research much easier than in the past.

Thus, in comparative industrial relations,<sup>14</sup> collective bargaining institutions and shop floor representation regimes ceased to be looked at mainly in terms of how far they lagged behind the American standard, given the rapid decline of trade unionism in the

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13 See Kerr et al. (1960). This was the time when a sociologist and ex-socialist such as Daniel Bell could proclaim the "end of ideology" (1965), in line with an American president of the period, John F. Kennedy, who in 1962 announced that "what is at stake is not some grand warfare of rival ideologies ... but the practical management of a modern economy. What we need is not labels and clichés but more basic discussion of the sophisticated and technical questions involved in keeping a great economic machinery moving ahead ... Technical answers, not political answers, must be provided ..." (Commencement Address at Yale University, as quoted by Reich 2007: 58).

14 In many ways the last remnant of institutional economics in the United States, industrial relations was in fact typically housed in economics departments. In the immediate postwar era it was closely linked to the US government policy of the time to implant New Deal-like institutions in the labor markets of defeated enemy countries, relying, for example, on the International Labour Organisation (ILO). Well into the 1970s, the discipline produced highly sophisticated work on institutional development and diffusion, the economic effects of different institutions in different national contexts, and the methods of international comparison. See, among many others, Kassalow (1969).

US at a time of resurgence of organized labor in Europe (Crouch/Pizzorno 1978). In the study of electoral and party politics, the Scandinavian pattern of close cooperation between powerful trade unions and a strong Socialist Party, with the “power resources” this provided for a policy of encompassing social protection and economic redistribution, cast doubt on the general desirability of the American model of, at the time, ideologically indistinct catch-all parties (Korpi 1983). Also, research on and theories of interest groups were profoundly changed by the recognition that American-style “pluralist” lobbying was not the only way advanced industrial democracies could accommodate social collectivism and organized interests, and that “corporatist” arrangements – institutions that give organized groups political co-decision rights<sup>15</sup> – were not only compatible with liberal democracy but had the capacity to impart to it a normatively desirable bias in favor of social classes whose needs and interests might otherwise be pushed aside (Schmitter 1974; Schmitter/Lehmbruch 1979). Here, as elsewhere, the discovery of structural variation made room for a discussion of normative and ideological alternatives to the postwar American “model” of advanced capitalism that had long been considered a universal norm.

The policy area in which institutional divergence between nation-states came to receive particular attention was incomes policy. In the 1970s, countries in which trade unions were recognized partners in national incomes policies seemed to be coping better with stagflation than the US and, in particular, Britain.<sup>16</sup> Countries that, unlike these two, proved capable of engaging in “concertation” and “political exchange” consistently received lower values on the “misery index” popular at the time, the sum of their rates of inflation and unemployment.<sup>17</sup> Institutions and institutional differences thus seemed to matter a great deal for a country’s position on the increasingly popular and sophisticated OECD league tables, and in fact it appears that this observation was one of the major inspirations for the subsequent development of the historical-institutionalist school in political economy (Thelen 1999).<sup>18</sup> At some point, even economists took notice of the apparent relationship between social institutions and economic performance as observed by sociologists and political scientists, and introduced indices of corporatism in their own econometric equations (Bruno/Sachs 1985). In politics, it was then, in 1976, that Helmut Schmidt ran a successful election campaign on the slogan “The German Model,” (*Modell Deutschland*) implicitly claiming economic and normative superiority for a society able and willing to integrate strong trade unions in public policy-making through institutionalized sharing of power and responsibility.<sup>19</sup>

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15 On the distinction between pluralism and corporatism, see Schmitter (1974).

16 Among many others, see Cameron (1984) and, recently, Streeck and Kenworthy (2005).

17 Invented by the economist Arthur Okun in 1965, under the name “discomfort index.”

18 “Historical” because and to the extent that institutions figure as less than fully pliable legacies from the past entailing specific opportunities and constraints for actors at present, rather than as “rationally” designed instruments easily adjustable to changing collective or individual purposes. For more on this, see below.

19 There is reason to believe that this was a euphemistic misrepresentation of a relationship that even at this time was, in fact, much more complicated (Streeck 2009: 108–119). In any case, the

By the 1980s, convergence theories had almost entirely fallen into disrepute in the social sciences outside of economics proper. Studies abounded that extolled not just the distinctiveness, but also the equivalence – if not superiority – of non-Anglo-American patterns of social and economic organization, patterns that were more politically governed and socially embedded. An important influence was a British journalist working for *The Economist*, Andrew Shonfield, who, in a magisterial study on “modern capitalism” in the 1960s, had, in the spirit of the age, described what he saw as an ongoing shift of power from private capitalism to interventionist nation-states and their – highly diverse – planning regimes (Shonfield 1965). While the book was rather descriptive and atheoretical, very much in the manner of the Historical School, it highlighted in detail the enormous variation in the institutional arrangements devised by different countries to impose order and stability on their capitalist economies.<sup>20</sup> Increasingly, Japan also came into view. Ronald Dore, author of the classic *British Factory, Japanese Factory* (1973), became a leading member of the Andrew Shonfield Society, which was founded after Shonfield’s early death in 1981 to continue making his case against market-liberal convergence and for the viability and indeed superiority of more communitarian forms of capitalism.<sup>21</sup>

While not avoiding normative argument, most of the institutionalist political economy literature of the time – a period of widely perceived Anglo-American decline – emphasized the, from a standard economics perspective, surprisingly good macro-economic performance of non-standard versions of capitalism. The practical conclusion this seemed to suggest was that if Anglo-American economies wanted to recover from their “crisis,” they required major social reform, in the sense of redistributive intervention to mitigate inequality; more public investment in training; better social protection and so on – in other words, the opposite of the further marketization and competitive deregulation prescribed by the rising movement of neoliberalism. Ronald Dore, in a much-cited book entitled *Flexible Rigidities* (1986), pointed out that it was precisely the reliance of the Japanese on “relational contracting” based on mutual trust – on close long-term relations between employers and workers, as well as between manufacturers and their suppliers – that had enabled the Japanese textile industry to prosper in hard times.<sup>22</sup> Similarly, Michael Piore and Charles Sabel, in *The Second Industrial Divide* (Pi-

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1976 election was the moment when the idea of a distinctively German – and by extension, European – production model ceased to be taboo in postwar public discourse.

20 Later, Shonfield took a lively interest in Continental corporatism and worker participation, as indicated by his posthumous book, *In Defense of the Mixed Economy* (1984).

21 The last product of the Shonfield Society was a collective volume, *The Political Economy of Modern Capitalism*, with the subtitle *Mapping Convergence and Diversity* (Crouch/Streeck 1997b). In addition to an introduction, it consisted of seven country chapters (on Japan, Germany, Sweden, France, Italy, the UK, and the US) and four analytical chapters. At least two of the latter – by Philip Cerny and Susan Strange – were less than optimistic about the persistence of capitalist diversity, especially in the face of a rapidly internationalizing financial system.

22 See also the influential book by Masahiko Aoki, *Information, Incentives, and Bargaining in the Japanese Economy* (1988), as well as the large number of articles on industrial relations during the 1980s that claimed functional equivalence for “flexibility” in internal as distinguished from external labor markets (among many, Streeck 1987).



ore/Sabel 1984), argued for the historical possibility of a new, post-Fordist production pattern, called “flexible specialization,” that was founded on community-like social relations rather than on market pressures or bureaucratic factory authority. Their favorite examples were the “industrial districts” of Northern Italy.

In the same vein, retracing the improbable rise of the apparently so institutionally “rigid” German economy to industrial preeminence in Europe and beyond during the 1970s and 1980s, Sorge and Streeck (1988) identified a “typically German” category of industrial output, which they called “diversified quality production,” that was obviously highly competitive in increasingly saturated global markets. Their point was that diversified quality production was not just compatible with but in fact favored and supported by a “virtuous circle” of mutually reinforcing “deviant” features of the German version of capitalism, such as strong trade unions, institutionalized worker participation on the shop floor and above, high wages with a low wage spread, high employer investment in workforce skills, and high employment security (Streeck 1991). What these authors and others had in common was that they were convinced of the possibility, sustainability, and even superiority of modes of production under capitalism that thrived on long-term, community-based social commitments<sup>23</sup> that, while humanly more acceptable, were also at least as efficient as traditional mass production, on the one hand, and the rising model of market-driven neoliberalism, on the other.

In the United States, in particular, the possibility of alternative models of capitalism was held up, especially by opponents of neoliberal deregulation, as a genuinely American path to economic revitalization. Their idea was for the United States to learn from Europe and Japan, rather than vice versa. Emblematic in this respect was a book originating from the Massachusetts Institute of Technology, *Made in America: Regaining the Productive Edge* (Dertouzos et al. 1989). At the progressive end of the American political spectrum, more or less explicit preferences for an American version of Social Democracy also played a role, not least among “Europeanists” in universities and think tanks who longed for examples of a successful capitalism softer and kinder than the American one. Well into the first years of the Clinton presidency, the institutional reforms the progressive wing of the American public believed to be necessary for American capitalism to catch up with its Asian and Continental-European competitors were debated in terms of a distinction between a “high” and a “low road” toward industrial competitiveness. While the former was represented by Europe and Japan, the latter was identified with

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23 At the beginning of the 1990s, Dore and Streeck were planning to co-author a book on the superior productivity of “stickier,” more lasting social commitments compared to more liquid ones, taking a preference for “liquidity” in labor and capital relations, and in social relations generally, to be typical of Anglo-America. Countries to be covered were Germany and Japan, on the one hand, and the US and the UK, on the other. The publication of Michel Albert’s book (see below) and the reversal of economic fortunes between the two capitalist camps in the 1990s (with Japan entering its “lost decade,” Germany chafing under the burdens of welfare state expansion and reunification, and the United States and, to a lesser extent, Britain experiencing a new spell of prosperity) put an end to the project.

the neoliberal deregulation project pursued by growing sections of American business since the mid-1970s. In an unprecedented critical self-examination, what was seen as American industrial decline was attributed to decades in neglect of areas such as education, workforce training, industrial innovation, industrial policy, and industrial finance – areas in which countries less reliant on “free markets” excelled (Thurow 1992).

### 3 Capitalist variety and the neoliberal turn

By the early 1990s, all the core elements of what was to become the “varieties of capitalism” paradigm were in place and waiting to be assembled into a general framework for macro-level political economy and economic sociology, beyond single-case country studies and the comparative analysis of select economic institutions such as collective bargaining. They included, in particular, the notion of national systems – or “models” – of differently institutionalized capitalisms locked in international competition; the rejection of convergence in favor of lasting national diversity; the leading distinction between market-liberal capitalisms located primarily in the Anglo-American world, and less-than-fully liberal, more relationally-based capitalisms like those, supposedly, in Europe and Japan; routine reliance on the comparative statistics published by international organizations on the macroeconomic performance and institutional structures of member states; the idea of differential “competitiveness” of national institutions, implying a responsibility on the part of national politics and government to establish and maintain the economically most beneficial institutions for their countries; the claim of the equal if not superior “competitiveness” of non-standard capitalisms and, as a consequence, of their sustainability, even in a world of progressive globalization and increasing competitive pressures; the theme of a coincidence of moral and economic virtue in national economic systems, and of national political systems’ opportunity to choose a more humane alternative to Anglo-American standard capitalism; and a more or less explicit normative bias in favor of some sort of social-democratic or communitarian, welfare state-supported or otherwise solidaristic “embedding” of the capitalist economy.

The project of a comparative study of capitalism in this vein received further momentum from the breakdown of Soviet Communism and the final victory of capitalism over its historical opposition in 1989. While the events led an author such as Francis Fukuyama to declare the “end of history” (Fukuyama 1992), students of political economy in the institutionalist tradition felt encouraged to devote even more attention to the differences, if no longer between capitalism and Communism, then between different national varieties of capitalism after it had become “the only game in town.” In fact, it was in the 1990s, after the demise of Communism, that the concept of capitalism gained universal currency as a more or less value-free analytical description outside of the orthodox Left and the ultra-liberal Right.



There were also several adverse developments in the real world which, however, failed to derail the project. One was certainly the embarrassing fascination of the countries of the former Soviet Bloc with the “American model” and the enthrallment of their new elites with neoliberal prescriptions of “shock therapy.” Moreover, there had for some time been suspicions that the US was using its growing international power to bend the rules of global capitalist competition in favor of its own, “low-road” regime, so as to spare itself the effort of reform in the direction of a capitalism with a more human face. A frequently cited example was the so-called Structural Impediments Initiative launched in 1989 by the Bush I administration in relation to Japan, which was aimed at forcing the Japanese government to free up markets – including capital markets – based on the American model.<sup>24</sup> In Europe, the fear of a less deserving, socially destructive capitalism on the brink of prevailing over its better alternative was forcefully articulated by the French author, Michel Albert. His *Capitalism against Capitalism* (Albert [1991]1993), written for a popular audience and translated into all major languages, divided the world into two camps: the Rhineland, led by Germany and Japan, and Anglo-America, with France sitting on the fence.<sup>25</sup> Anticipating and indeed defining some of the core themes of the “varieties of capitalism” literature, Albert arrived at the melancholy conclusion that the greater dynamism and cultural attraction of American-style neoliberal adventure capitalism – what he called the “neo-American model” – was about to crowd out the more solidaristic and ultimately more efficient capitalism of the combined Rhinelands.

Another inauspicious development – and easily the most important – was the retreat of the Clinton administration in the middle of its first term from its original pretense at social reform as a strategy of economic revitalization. The 1990s saw the astonishing success of the less demanding policy of deregulation and financialization that was chosen instead and that actually did usher in more than a decade of unprecedented if – as we now know, after the bubble has burst – artificial prosperity (Stiglitz 2003). Soon Britain under Blair was to follow the lead of Clinton and Bush II, reinforcing perceptions of Anglo-American parallelism. Simultaneously, the British and American “Euro-sclerosis” rhetoric, which had been around, if mostly in the form of wishful thinking, since the early 1980s, seemed finally to come into its own, with the mounting employment and fiscal crises of leading Continental-European welfare states and their desperate search for more “flexibility” in their labor markets and social security systems. There was also the rapid internationalization of the capitalist economy, popularly known as “globalization,” which potentially conflicted with the theoretical commitment of comparative capitalism research to the nation-state as its basic unit of comparison, pro-

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24 The event inspired the collective volume, *National Diversity and Global Capitalism*, edited by Suzanne Berger and Ronald Dore (1996).

25 Michel Albert was not a professional scholar but an insurance industry executive-cum-public intellectual who had worked in both worlds: Germany and Switzerland, as well as the US. He had several other books to his credit when he published *Capitalism Against Capitalism*. Among the most interesting chapters of the latter work is the one comparing insurance practices in Switzerland (the “Alpine” model) and the UK (the “maritime” model, Chapter 5).

ducing mounting evidence of the obsolescence of a conceptual toolkit that disregards interdependence for the sake of comparability.

While the rise of neoliberalism in the 1990s did not stand in the way of the beginning “varieties of capitalism” debate, it did result in the optimistic beliefs of the previous decade in the economic superiority of the normatively favored alternative to standard capitalism being more or less silently abandoned. Increasingly it seemed unavoidable to concede to the Anglo-American “model” the same stability and sustainability that had been attributed to the more socially embedded capitalisms, perhaps in the hope that the opponents of the latter would reciprocate and in turn recognize the embattled European and Japanese “models” as coequal. As for the accelerating liberalization of the Continental and Asian “nonliberal” capitalism (Yamamura/Streeck 2003), this tended to be considered essentially as an opportunistic adjustment that was far from transformative (Vogel 2003). Concerning the United States and, to a lesser extent, Britain, questions such as how they would in the longer run service their rapidly growing private debt and pay for a level of consumption that had become increasingly detached from production and productivity were never asked. The same applies to the causes and consequences of the endemic US trade deficit that was soon to be complemented by, again, rapidly rising government deficits. It was only when financialized capitalism collapsed in the crisis of 2008 that the fundamental deficiencies and lack of sustainability of debt-financed neoliberal prosperity came into the view of comparative capitalism research and theory.

#### 4 Varieties of capitalism, varieties of approaches<sup>26</sup>

Why should national “capitalisms” become and remain different, despite powerful pressures for cross-national convergence emanating from the diffusion of technologies, international competition, border-crossing markets, transnational firms, international organizations, an increasingly global culture, and the like? Four models of capitalist variety – in other words, accounts of what kinds of social forces result in it – can ideally be distinguished in the existing literature, although they sometimes overlap: (1) a *social embeddedness* model, (2) a *power resource* model, (3) a *historical-institutionalist* model, and (4) a *rationalist-functional* model (for a synopsis, see Table 1). While the first three are seen as superior to standard capitalism but vulnerable to its advance, the fourth is claimed to be equivalent to it and equally sustainable.

(1) The *social embeddedness* account of capitalist variety grounds the persistence of capitalist diversity in societies’ cultural traditions and formal and informal social structures or networks. It is the most sociological of the four models. Societies are distinguished by the extent to which traditional, pre-capitalist codes of social behavior and modes

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26 This is the title of a collection of essays edited by David Coates (2005b).

Table 1 Four models of capitalist variety

	The social embeddedness model	The power resource model	The historical-institutionalist model	The rationalist-functional model
Source of variety	Social-structural and cultural	Political	Institutional	Economic
Hegemonic actors	Social and cultural elites	Organized labor	Organized interests	Efficiency-maximizing elites
Source of economic order	Tradition	Politics and legislation	Path-dependent institution-building	Consensual pursuit of efficiency
Distinctive economic performance	Long-term profitability	Equality and security	Labor-accommodating production strategies ("diversified quality production")	Specialization as conditioned by institutional capacities
Source of economic performance	Normative social integration, strong network ties	Government economic policy	Institutional constraints and opportunities Concertation	Different institutional capacities
Source of possible convergence	Cultural modernization	Political disorganization	Economic liberalization	Miscalculation of interests and capacities

of social control continue even under capitalism to moderate the egoistic pursuit of economic interests.<sup>27</sup> In societies in which this is more the case than in others – where, in other words, the social and economic order is based on effective normative integration – economic transactions are to a lesser extent than in more “modern” societies exempt from the standards of appropriateness that govern social transactions generally. The dominant values, in economic life as well as in social life in general, are reciprocity, group solidarity, discipline, respect for traditional status, group identification, acceptance of paternalistic responsibility in return for deference to authority, and the like (Dore [1983]1992). Modern organizations in socially embedded capitalism are culturally styled in terms of extended families or villages, with prevailing role definitions emphasizing particularism, ascription, functional diffuseness, affectivity, and collectivity orientation.<sup>28</sup> Economic performance is primarily the performance of social duties, and profit is not central but ensues as a result of faithful adherence to the normative order. Status counts more than class, honor more than income, and traditions – of workman-

27 The model is closely related to the “societal effect” theory of economic organization, where traditional status orders, or long-lasting meta-traditions of social organization, condition the organization of work and industry at the point of production (Maurice et al. 1980; Sorge 2005). The difference is that the societal effect literature treats each country as a historical individual and refrains from developing a typology.

28 These are, of course, the opposites of the “modern” end of Talcott Parsons’ five “pattern variables”: universalism, achievement, functional specificity, affective neutrality, and self-orientation (Parsons 1951: 67).

ship or social decency – matter more than material benefits. The model country for socially embedded capitalism is, of course, Japan.<sup>29</sup>

Despite their social traditionalism, and indeed because of it, capitalist systems based on social integration as opposed to economic incentives may perform very well economically, and at least sometimes better than more “modern” capitalisms. This is because cultural traditionalism happens to support long-term social relations that, as a welcome side-effect, sustain long-term economic relations, with the ensuing mutual trust being at least as economically beneficial as the individual incentives that come with high, market-generated inequality.<sup>30</sup> Typically, accounts of the economic benefits of cultural traditionalism, or backwardness, carry with them a concern about their continued viability in the modern world. The question is whether the social and political elites that serve as guardians of inherited conventions will be able to defend traditionalist action orientations against the temptations of short-term satisfaction, consumerism, and individualism.<sup>31</sup> As mentioned above, the notion of modernization undermining normative integration and thereby eroding the economic performance of alternative versions of capitalism is a central theme of Michel Albert ([1991]1993), but it is also present in more recent work of Ronald Dore (2000, Chapter 11) and others. That modern society may consume its normative foundations without being able to restore them is, of course, an old theme of social theory prominent in the works of writers as different as Daniel Bell (1976) and Jürgen Habermas (1973, 1975).

(2) The *power resource* model, of which the exemplary case is Sweden, as presented particularly in the work of Walter Korpi,<sup>32</sup> is politically rather than culturally or social-structurally based. Non-capitalist social solidarity figures prominently in political-economic relations, but rather than being a residual of precapitalist traditions, it is constructed by collective political action and redistributive politics. In other words, traditional institutions, which were weakened in the course of capitalist market expansion, are replaced by social-democratic social policy. De-commodification, or protection from commodification in the first place, is achieved not through normatively in-

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29 But there are also culturalist-communitarian accounts of capitalism in Italy, the *locus classicus* being the work of Sebastiano Brusco (1982). Alternative interpretations of Italian industrial districts emphasize their dependence on a specific institutional “exoskeleton” (Piore/Sabel 1984; Trigilia/Burroni 2009). The story they tell is either historical-institutionalist or rationalist-functionalist, and sometimes both at the same time, depending on the degree to which institutions are described as inherited or rationally constructed for economic purposes.

30 Network-like social ties also figure prominently in the earlier literature on “social systems of production” (Hollingsworth/Boyer 1997), “national systems of innovation” (Lundvall 1992), and “business systems” (Whitley 1999), which both preceded and significantly informed the varieties of capitalism debate. The general idea in this literature is that different societies have different ways of establishing links between agents engaged in production, innovation, and business relations, resulting in different kinds and, perhaps, levels of economic performance.

31 It is the task of policy, then, to cultivate the social ties that keep the economy running. The more emphasis is placed on the need for political intervention to stabilize the social system underlying the capitalist economy, the closer one gets to the rationalist-functionalist model. See below.

32 See Korpi (1978, 1983). See also Martin (1984) and Pontusson (1992), among others.

tegrated informal networks, but through the application of legislative state power as a functional alternative to and modern substitute for social traditionalism. The main agent of social-democratic “politics against markets” (Esping-Andersen 1985) is the labor movement with its two wings, a unified socialist party and an encompassing trade union confederation, working together – also in coalition with other social forces – to acquire and maintain control of the democratic state as the modern “power resource” of the broad mass of the people. Capitalist firms are used, and the laws of the market are judiciously observed, in order to generate general prosperity. Simultaneously, social policy, especially labor market policy, is deployed to distribute the results of the collective effort in as egalitarian a manner as possible and to contain the uncertainties that would emerge from an unfettered free market economy.

Socially controlled capitalism, or democratic socialism, as envisaged by the power resource model of capitalist diversity probably comes closest to what Karl Polanyi meant by the “great transformation” he expected to take place after World War II and the catastrophe of liberalism in the first half of the twentieth century (Polanyi [1944]1957). The principal condition of its persistence in the face of pressures for convergence on a market-driven and de-politicized standard capitalism is that the collective organizations of the working class succeed in keeping their constituents mobilized, in principle indefinitely. In particular, they must manage to secure broad popular adherence to the political goals of an egalitarian distribution of life chances and of public protection for all members of the community from the vagaries of capitalist markets, especially markets for labor and capital. As recent Swedish experience shows, disorganization of the Left, or of the political system generally, disperses the power resources of those whose interests depend on effective containment and control of markets, eventually moving the political economy closer to the capitalist mainstream.

(3) The *historical-institutionalist* model, by comparison, emphasizes the role of inherited institutions as both constraints and opportunities for economic action. Institutions are conceived, not primarily as normative scripts or tacit cultural understandings, but as collectively sanctioned, mostly formalized building blocks of social order, including economic order.<sup>33</sup> Rather than the result of rational calculation or voluntary agreement, institutions are seen in principle as historical legacies that are sticky, i.e., not easy to change, or likely to change mostly along an established path (Thelen 1999; Pierson/Skocpol 2002). Moreover, they entail obligations, not just rights, and while they may serve rational-economic objectives, they also serve a wide range of further purposes. Economic institutions therefore also have to satisfy expectations beyond economic ones, and economic action is governed not just by economic institutions in a narrow sense but also by social institutions.

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33 On different concepts of institution, and the respective variants of institutional theory, see Hall and Taylor (1996).

In historical-institutionalist work, institutions that regulate and accommodate collective interests and collective organization at the intermediate level of society between the market and the state are especially important for capitalist variety. Intermediate institutions of this kind were at the center of theories of corporatism (Schmitter 1974) which contributed significantly to the emerging research program of historical institutionalism (see Streeck 2006). In this perspective, capitalist variety is vested in the way in which the interests of social groups and the organizations that represent them are included in political and economic decision-making, at both the micro and the macro level. What is particularly important is the extent to which intermediary institutions are labor-inclusive, allowing non-capitalist interests to insert themselves in the governance of the capitalist political economy, for example through tripartite negotiations with the state and capital. Obviously, the principal example for the model is Germany (Streeck 1997).

In historical-institutionalist accounts, capitalist diversity is brought about and sustained not just by political democracy and redistributive government intervention, but also by the way in which labor is institutionalized as a *countervailing power* in the organization of production. The underlying assumption is that productive cooperation between capital and labor takes different forms and produces different results depending on how labor is organized and included. Whether or not negotiated production systems prove “competitive” in the market depends on conjunctural circumstances – that is, on good luck – as well as on whether capitalists and their managements learn to live with the obligations they have to accept as the price of labor’s cooperation. Capitalist “economizing” takes place only against the background of institutionalized restrictions imposed on it in the name of objectives other than the maximization of profit. Leading assumptions are that there are different ways for capitalist firms to make a profit; that some ways, like diversified quality production (Streeck 1991), are more demanding although not necessarily less profitable for capital than others; that labor and society at large may have a preference for the more difficult production strategies (“the high road”) being adopted by firms; that which strategy is in fact adopted is affected in part by the institutionalized power of labor as well as the willingness of firms to live with what may for them be a second-best alternative; and that the ultimate arbiter for the path taken by a social system of production under capitalism is whether it can find a market for its products. Moreover, whether or not capital is willing to “learn” and explore alternative, more labor-accommodating production and marketing strategies is significantly affected by available opportunities to exit from a regime under which labor has the capacity to impose obligations on capital (Streeck 2009, Chapter 13). The main source of convergence in the historical-institutionalist model, therefore, is economic liberalization and the opportunities for international mobility it offers (Streeck 2004a).

(4) Finally, the *rationalist-functional* model explains capitalist variety as the outcome of a search for economic advantage. Its background is the shift of the convergence discourse in the neoliberal 1980s and 1990s from technological to economic determinism: that is, to the idea that increased international competition as brought about by “globalization” will force national economic systems to converge on a unified “best practice.”



While sharing the neoliberal – or economic – view of *the social order as an economic order*, rather than the other way around,<sup>34</sup> the rationalist-functional model arrives at the opposite conclusion: it suggests that, in an integrated world economy, institutional differences may not only be not obsolete but in fact desirable as they may enable national or local economies to specialize in particular products and processes and thereby establish a comparative advantage. Far from generating identical institutions, in other words, competition is seen as giving rise to institutional diversity by exerting pressures for specialization.<sup>35</sup>

The rationalist-functional model differs from the social embeddedness and the historical-institutionalist models in that it treats the economic benefits of institutional non-conformity not as its more or less unintended *effects* but as its *cause*, or *raison d'être*. Institutions do not just enable successful economic performance, but they are built for the purpose and would be re-built if they ceased doing so. In the social embeddedness model, competitiveness comes about as a side-effect of adherence to community norms, while in the historical-institutionalist model it results from capitalists learning to live with and make the best of a firmly institutionalized labor constraint. The rationalist-functional model, by comparison, considers competitive efficiency as the intended goal of a cooperative economizing community of transaction cost-conscious actors consensually seeking the most efficient ways of organizing their mutual relations;<sup>36</sup> in particular, cooperation is not seen as conditional on capitalists meeting non-economic social obligations.

In the rationalist-functional model, to sum up, capitalist variety in institutional structures and public policies is causally explained and normatively evaluated by its functions for economic efficiency. That a country's institutions and policies enhance economic performance is assured by hegemonic political-economic actors conceived as rational economizers concerned with minimizing transaction costs. Economic institutions have

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34 The social embeddedness model views the economic order as a social order, while the power resource and historical-institutionalist models describe it as social-political order.

35 This is a theme well known to sociologists (Durkheim [1893]1964). It is taken up by Hall and Soskice with reference to economic theories of comparative advantage (Hall/Soskice 2001a: 36 f.), as originating with David Ricardo and further developed by Paul Krugman (1991). Their point is that trade theory has increasingly recognized the importance of institutions (as distinguished from factor endowments) as sources of comparative advantage, but has as yet been unable to find a systematic link between the nature of national institutions and the kinds of products in which national economies excel. Still, there is much similarity between their argument and that of an author such as Michael Porter, in his *Competitive Advantage of Nations* (1990).

36 In other words, it explains community norms in a reductionist manner, by conceiving of them as rationally designed to be economically efficient, or selected by an efficient market for institutions. The boundary between economic-reductionist and cultural or historical-institutionalist accounts is, however, sometimes blurred. See the famous article by Williamson and Ouchi (1981), which wavers between rationalist and culturalist perspectives on transaction cost-minimizing social norms. Rational choice reconstructions of cultural integration in capitalism are frequent, both in the German and the Japanese case.



only one function, to increase efficiency, which makes them easy to design and redesign, and enables the theory of capitalist variety to be functionalist and voluntaristic-rationalist at the same time.<sup>37</sup> Institution-builders are modeled as rationally interested in preserving the distinctiveness of their country's institutional arrangements, unless they make the mistake of listening to the advice of neoliberal prophets of the "one best way." The rational design capacities of economic and political actors are complemented by effective selection in competitive markets for institutions, where institutions survive to the extent that they enjoy comparative advantage. The functionalist nature of the model is also reflected in its relegation of distributional concerns to secondary status.

## 5 Institutional complementarity and comparative advantage

By the late 1990s, capitalist diversity had become the subject of a broad literature, culminating in a number of widely read books (for example, Stallings 1995; Berger/Dore 1996; Crouch/Streeck 1997b; Kitschelt et al. 1999; Coates 2000). However, the most influential formulation of the theme was presented in a collective volume edited by Peter Hall and David Soskice in 2001, *Varieties of Capitalism: The Institutional Foundations of Comparative Advantage* (2001b). While individual chapters differed somewhat in their approach, the book's introduction (Hall/Soskice 2001a) developed a conceptual model of capitalist variety that was straightforwardly rationalist-functionalist. Although the model was not consistently applied, not even at the point of its invention, and was later occasionally fudged to accommodate historical-institutionalist critiques,<sup>38</sup> it became the founding document for a veritable growth industry in political science and political economy in particular (Figure 1).

Both the model and its reception are, again, best understood in a sociology-of-knowledge perspective. While politically the model reflects the ascendancy at the time of its inception of Anglo-American finance-led capitalism – whose fundamental unsustainability had yet to be revealed – academically it spoke the language of the rational choice institutionalism that was then rising to dominance almost everywhere: a language that lent itself to being presented and received as so much more "rigorous" and "theoretical" than that of competing models of capitalist diversity.<sup>39</sup> Couched in those terms, and

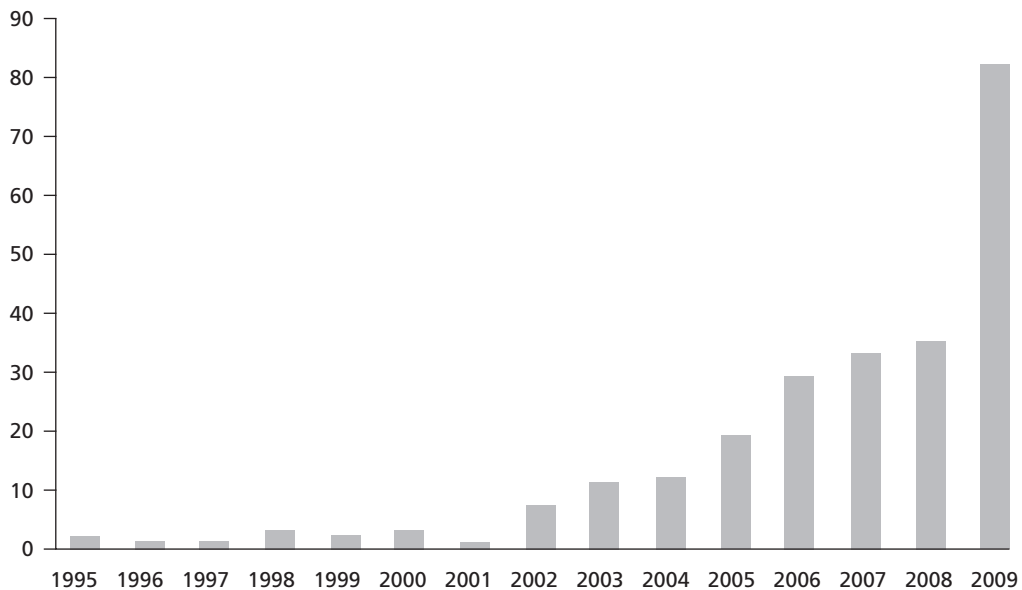
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37 To the extent that cost-saving social ties are described as only partly constructed and ultimately culture-based, the rationalist-functionalist model shades into the social embeddedness one.

38 See Hall and Thelen (2009) or Hall (2007). Concessions to critics of efficiency-theoretical accounts of socioeconomic institutions went, however, mostly unnoticed by subsequent users, probably because they were never integrated by the authors of the model into its core conceptual structure.

39 Hall and Soskice draw extensively on the conceptual apparatus of transaction cost economics, referred to as the "new micro-economics" or the "new economics of organization" (Hall/Soskice 2001a: 5; 14).

Figure 1 Varieties of Capitalism: Journal Articles



Source: Social Science Citation Index, February 8, 2010.

against the background of the apparent turnaround of the Anglo-American economy, Hall and Soskice delivered their message that alternative, “European” versions of capitalism were *not* doomed to converge on the neoliberal, American model, and that this could be demonstrated even in the much-admired language spoken at leading economics departments, thereby making that language finally available even to those unwilling to buy into the “best practice” universalism of neoliberal economics. What further endeared their approach to a wide readership seems to have been its dichotomous and perhaps Manichaeian division of the world into two warring camps, like the one that had already boosted Michel Albert’s book ([1991]1993).

Given the enormous impact of the 2001 essay, it seems appropriate to take a closer look at some of its main tenets, including the conceptual weaknesses associated with its rationalist-functionalist orientation:

(1) National capitalist systems, referred to as “market economies,” are said to come in two types, “liberal” and “coordinated,” the former (abbreviated “LMEs”) comprising six countries from the Anglo-American family of nations, the latter (the “CMEs”) including Germany and its smaller neighbors (the Netherlands, Belgium, Switzerland, and Austria), Scandinavia and Japan. Occasionally, France, Italy, Spain, Portugal, Greece, and Turkey are classified as “ambiguous” or, alternatively, as constituting a third, “Mediterranean,” type; for the conceptual framework this remains however largely irrelevant. Germany is the paradigmatic case of a “CME.” In the Introduction, its contrasting case is the United States. Of the 13 empirical chapters, however, the US appears only in four. In six chapters, LMEs are represented by the UK, in three of them in a direct two-

country comparison with Germany, which in turn features in no less than 10 of the 11 chapters that consider individual cases.

(2) LMEs and CMEs are alleged to differ in the way the firms that operate in them secure the “cooperation” they need for efficient production. Partners with which firms have to “coordinate” include suppliers, workers, creditors, shareholders, customers, trade unions, governments, and others (Hall/Soskice 2001a: 6). The authors describe their approach as “firm-centered” (ibid.: 5) and “relational” (ibid.: 6), which they consider to be its distinguishing characteristics. Relations of production are described as either “arm’s-length,” as in the so-called LMEs where they are arranged through formal contracts and competitive markets, or “relational,” as in the CMEs, where they are established through strategic interaction and coordination.<sup>40</sup>

(3) National models of capitalism are controlled by firms in search of efficient relations of production. The problems firms must solve are conceived as those identified by transaction cost economics and rational choice institutionalism: avoiding hold-ups and moral hazard, containing opportunism, eliminating uncertainty, cultivating trust, preventing shirking and adverse selection, and generally minimizing transaction costs. Institutional structures in either system are solutions, established by firms or, on their behalf, by national states, to problems of efficient governance of economic transactions. Political intervention serves to optimize the institutional framework within which firms pursue their respective competitive strategies. This includes institutions such as labor market regulation or the welfare state. With firms as the main agents of institution-building and institutional change, the theory is revisionist with regard to the role of trade unions and labor parties: rather than as countervailing powers, as in the power resource model, they appear as cross-class coalition partners of strategically competent firms with which they share a general interest in competitive efficiency.<sup>41</sup>

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40 Conceptual confusion is rampant here. “Coordination” sometimes refers to the establishment of productive relations in general, regardless of whether through markets or – other? – institutions. Mostly, however, the term is used synonymous with “non-market coordination”; hence the distinction between “coordinated” and “liberal” market economies. Also, while markets are sometimes included in institutions, mostly institutions mean only non-market institutions. And while in some places all interaction between economic actors seems to be “strategic,” when it comes to distinguishing the two main types, strategic interaction is confined to CMEs (Hall/Soskice 2001a: 8). Similarly, the authors designate their approach as “relational” on the grounds that it models political economy in game-theoretical terms, only to limit the concept later to the coordinated type of market economy. Moreover, although game theory is prominently invoked in the conceptual part of the chapter, and is claimed to be distinctive of the approach (ibid.: 5), it plays no role in the substantive sections.

41 For empirical reference the argument draws on the work of Swenson, Mares, and others who in the 1990s redefined welfare state development as an outgrowth of a strategic search by capital for higher returns on investment, rather than the result of pressure from labor for redistribution and protection from market forces (Swenson 1991, 1997; Estevez-Abe et al. 2001; Mares 2001, 2003; Swenson 2001).

(4) LMEs and CMEs differ in their economic capabilities as vested in their differing endowments with institutions and resources. While *different*, however, the capabilities of liberal and coordinated market economies are also *equal*, in the sense of equally competitive and sustainable.<sup>42</sup> This is because each of the two types comes with a different “comparative advantage.” LMEs and CMEs show similar levels of economic growth, per capita income, and unemployment<sup>43</sup> which, however, they achieve in different ways. Whereas German-type economies excel at “incremental” innovation resulting in “diversified quality production,” Anglo-American economies are alleged to be better at “radical” innovation, with the respective innovation patterns related to different patterns of “coordination” between economic actors (Hall/Soskice 2001a: 21–44).

(5) National political economies are composed of institutional spheres that function better the more they “complement” one another. Five such spheres are envisaged: industrial relations, vocational training and education, corporate governance, inter-firm relations, and the relationship between workers and management (Hall/Soskice 2001a: 6f.), although the list keeps changing. Institutions are considered complementary “if the presence (or efficiency) of one increases the returns from (or efficiency of) the other” (2001a: 17).<sup>44</sup> The claim is “that nations with a particular type of coordination in one sphere of the economy should tend to develop complementary practices in other spheres as well” (ibid.: 18). Although the meaning is not entirely clear, it seems that complementarity is defined as structural homogeneity (or isomorphism): coordination via institutions other than markets – that is, through strategic interaction in the narrower sense – is to be more efficient in one sphere if the same sort of coordination is also practiced in other spheres. National institutional configurations are likely to be structurally homogeneous, and in this sense complementary, because of their governors’ desire to increase their efficiency.

(6) Together, the equal competitiveness of LMEs and CMEs and the economic benefits of complementarity stand in the way of convergence on a single “best practice” of national capitalisms. Both types are capable of survival, their chances being greater the purer their adherence to their respective method of “coordination” across institutional spheres. This makes radical institutional change rare. While a deviant development in

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42 “Although each type of capitalism has its partisans, we are not arguing here that one is superior to another” (Hall/Soskice 2001a: 21).

43 “Performance” does not include distribution, which is treated as a separate matter (Hall/Soskice 2001a: 21). The typical patterns of distribution associated with the two capitalisms are not included among their typological characteristics. Institutional analysis is only about efficiency defined as “the net return to the use of an institution given its costs” (ibid.: 17). A typical claim is that since economic actors in CMEs “rely more heavily on forms of coordination secured through strategic interaction..., the relevant institutions will be those that allow them to coordinate on equilibrium strategies that offer *higher returns to all concerned* (ibid.: 9f.; italics added).

44 “We refer to total returns, leaving aside the question of to whom they accrue,” which is “a matter of property rights” (Hall/Soskice 2001a: 17, FN 17). The latter are obviously considered to be irrelevant for capitalist institutional variety as different patterns of distribution.

one sphere is likely to be reined in by economic pressures for efficiency-through-complementarity, simultaneous change in all sectors in the same direction is difficult if not impossible to bring about.<sup>45</sup> (Note that this deals a poor hand to oppositional forces in either system that would like their country to switch to the alternative system – to neoliberals in Germany-at-large, just as to social reformers in Greater Anglo-America.) Rather than *convergence*, the tendency is for *polarization*: for countries with impure combinations of institutions to move from their position somewhere between the two “ideal” types to either of its two endpoints where institutional arrangements are homogeneous and, therefore, more efficient.

Ultimately, the functionalist make-up of the Hall and Soskice conceptual schema would seem to be most apparent in, and perhaps to derive from, the way it equates its main concept, “capitalism,” with that of “market economy.” The very problems of distribution and exploitation that are centrally emphasized when a socioeconomic formation is referred to as capitalist are thereby submerged in, or redefined as, problems of efficient production. As a consequence, the fundamental ambivalence inherent in the concept of capitalism as a system of both economic progress and private appropriation is eliminated. Similarly, conflict and power are thrown out as sources of socioeconomic order in favor of coordination and cooperation. Reconceived as a market economy, capitalism becomes a political technology for cooperative wealth creation, where the pursuit of efficiency is identical with the pursuit of profit and where political conflict results, if at all, from misunderstandings and insufficient knowledge of economic “laws.” Thus the notion of capitalism, originally inseparably associated with conflict and crisis, becomes not just technocratically sterilized but also de-historicized, as the conceptual schema of capitalism-as-market-economy has no systematic place for the possibility of capitalism-as-political-economy reaching historical limits to its sustainability.

## 6 Not enough variety, too little history? The “VoC Debate”

In the following I will review central aspects of the extensive debate on the Hall and Soskice model of capitalist variety, referred to from here on as “VoC.” My review will focus on four critical issues:<sup>46</sup> the *methodological nationalism* behind VoC’s definition of cases as countries, and the assignment of countries as whole units to positions in a typological classification of “capitalisms”; the *functionalism* behind the conceptualization of countries as tightly coupled interactive systems of “complementary” institutions; the

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45 For a brief discussion of the relationship between complementarity and change, see Hall and Soskice (2001a: 63f.).

46 For an excellent overview that appeared when the present paper was being written, see Bohle and Greskovits (2009). See also three collective volumes that reflect the breadth of the debate: Morgan/Whitley/Moen (2005), Hancké/Rhodes/Thatcher (2007a), and Hancké (2009).

*economism* underlying accounts of social order as a result of adaptation to pressures for efficiency; and the *static comparativism* of an approach to capitalism that assigns only secondary significance to origin, history, agency, conflict, and change.

*First*, critics objected early on to the dualism, or bipolarity, of the Hall and Soskice typology, and to the way the two main types, “LMEs” and “CMEs,” were defined as opposite ends of a one-dimensional property space (Goodin 2003). As noted, Hall and Soskice mention in passing but fail to theorize a third category of capitalism, which they label “ambiguous” or “Mediterranean.”<sup>47</sup> This leaves open the question of whether cases that do not fit either of the two principal types are located somewhere between them, with the prospect of evolving with time into one of the two (“dual convergence”), or whether they are something else, requiring a more complex typology, like the one suggested by Boyer (2001), who distinguishes between market-led, corporate, social-democratic, and state-led capitalisms. Amable (2003), using factor-analytical econometric techniques on a large set of macroeconomic variables, establishes five types, which he calls market-based, Asian, Continental-European, Social-Democratic, and Mediterranean. In contrast, Coates distinguishes between market-led, negotiated-consensual, and developmental state-led capitalism (1999), or between liberal and trust-based capitalism (2000). Still other classifications are offered by Schmidt, who in order to accommodate the peculiarities of the French political economy proposes three types, market capitalism, managed capitalism, and state capitalism (2003), and by Hancké, Rhodes and Thatcher (2007b: 25).<sup>48</sup>

Another, more specific objection to the bipolar typology of Hall and Soskice relates to the way it lumps together the United States and the United Kingdom as the two paradigmatic “LMEs.” For a major difference between the two, with high typological relevance, several authors point to the strong role of the American state in technological innovation, especially through military spending, without which Silicon Valley or the internet would never have come into being (see, among many others, Crouch 2005a: 134f.; Taylor 2009). Moreover, and more fundamentally, Crouch (2005a) argues that Hall and Soskice confuse cases and types, a mistake of which Max Weber had already warned (*ibid.*: 57).

Empirical cases must be studied, not to determine to which (singular) of a number of theoretical types they should each be allocated, but to determine which (plural) of these types are to be found within them, in roughly what proportions, and with what change over time.  
(Crouch 2005a: 26)

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47 Schneider and Soskice (2009), in order to accommodate Latin America, add “hierarchical” to “coordinated” and “liberal” market economies.

48 There is also a broad literature trying to fit the political economies of Eastern Europe after the transition into a, usually expanded, typology of national capitalisms (see, for example, David Lane 2005; Feldman 2007; King 2007; Lane/Myant 2007; Mykhnenko 2007; Bohle/Greskovits 2009; Nölke/Vliegenthart 2009). If anything, the apparently unending number of alternative typologies serves to reinforce skepticism about the validity of any general typology of different “capitalisms.”



Ultimately, this raises the issue of the nature of the cases compared. As noted, in standard comparative capitalism cases are countries, or societies organized as nation-states. But if what is compared are really types of coordination, or modes of governance, sub-national regions (Trigilia/Burroni 2009) and sectors (Hollingsworth et al. 1994) might also qualify as cases, while countries would better be conceived as combinations of more or less heterogeneous institutions (Crouch et al. 2009). In general, as the number of types of capitalism grows, and that of countries within types consequently declines, countries begin to appear increasingly as “historical individuals” in a Weberian sense. Paradoxically, this makes their commonality as capitalist political economies and their mutual interrelations more salient.

The status of countries as principal units of comparison is also called into question by research on the behavior of firms. That firms are not the prisoners of nation-states, and today less so than ever, entails the possibility of institutional arbitrage, with firms moving their operations, or parts of them, to the environment that best fits their needs. While Hall and Soskice expect this to reinforce diversity between countries (2001a: 57), porous national borders seem to enable firms also to acquire needed resources from abroad, which would allow them to pursue deviant or atypical competitive strategies at their original location. As a consequence, diversity between firms *within* national systems may increase, causing in turn growing convergence *among* the latter. On the basis of research on the German, Italian, and British pharmaceutical industries, Herrmann (2008a) argues for the possibility of radical innovation in a “coordinated market economy” such as Germany, as firms can procure from abroad production inputs not supplied under domestic institutional regimes.<sup>49</sup> More generally, several authors doubt the capacity of national institutional contexts to control the strategic behavior of firms as tightly as implied by VoC (Hancké/Goyer 2005; Batt, Nohara/Kwon 2010; Doellgast 2010). Thus Wood et al. (2009) show important differences in firm-level labor relations practices within and not just between countries. Similarly, Morgan (Morgan 2005, 2009) emphasizes an – apparently growing – strategic capacity of firms to make individual choices independent of national institutional constraints, thereby bringing about systemic change by increasing diversity within systems and simultaneously blurring the differences between them.<sup>50</sup>

More questions regarding the power of national institutions to shape the behavior of firms are raised by an inspection of trade patterns. According to Watson, who warns of the danger of “reification” of “the national” in Ricardian theories of comparative advantage, there is no indication that, as the Hall and Soskice typology implies, “the greater the institutional difference between two countries the more distinct their pat-

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49 See the extended debate between Herrmann (2008b, 2009, 2010), Lange (2009), and Casper (2009) in several issues of *Socio-Economic Review* on the competitive strategies and success of German firms in biotechnology, which goes back to Casper’s contribution to the Hall and Soskice volume (Casper 2001).

50 See also, earlier, Katz and Darbishire (2000).



terns of economic specialization will be” (Watson 2003: 234). Nor does there seem to be evidence of an “obvious concentration of trade between countries whose economies are most institutionally dissimilar” (ibid.: 236).

*Second*, the fact that mainstream VoC reasoning explains national institutional configurations in terms of the economic benefits of “complementarity” raises well-known general questions on the merits and demerits of functionalism in the social sciences (on the following see Crouch et al. 2005). Defining complementarity as structural homogeneity of institutional practices, in particular in industrial relations and corporate governance, Hall and Gingerich (2004) claim to have found that countries with homogeneous institutions, supporting either markets or “strategic coordination,” perform better economically than countries with heterogeneous institutions. Höpner (2005: 340), however, notes that the “clustering” of homogeneous institutions “is an indication for compatibility, but no proof of complementarity.” Moreover, in the German case which Höpner has studied, more market-driven corporate governance has served to tighten cooperation and coordination between management and labor at the enterprise level. Höpner also argues that structural homogeneity may be due not to higher efficiency, but “simply (to) the existence of culturally related ‘families of nations’ in the OECD world” (2005: 334). Furthermore, several studies find no empirical support for the claim of the economic superiority of “pure” cases (see, for example, Kenworthy 2006).

A related theme is whether functional complementarity requires structural homogeneity or whether performance, for example with respect to innovation, might not, to the contrary, be enhanced by a mix of different types of institutions inside a national economy (Crouch 2005b). Campbell and Pedersen (2007) point to the frequency and apparently high economic viability of “hybrid” national systems that combine coordination by institutions with “coordination” by markets, arguing that the functional advantages of structural homogeneity, if they exist at all, may be weaker than assumed by VoC theory. Outside of functionalist concerns with economic performance, the existence of hybrid systems (Boyer in Crouch et al. 2005; Höpner 2005; Deeg 2009) can be taken as an indication that national institutions are not as tightly coupled as suggested, and are tolerant of a good deal of internal diversity and, perhaps, friction (Lane/Wood 2009). This would appear to allow not just for change and experimentation but also, by implication, for the pursuit of non-economic objectives in addition to or in competition with economic ones.

Even more fundamentally, any theory that explains the elements of a social system, whatever their structural make-up, by their – “complementary” – contribution to a common purpose must specify a mechanism that causes and safeguards their functional fit. In political economy, this could either be intelligent institutional design by an agent willing and able to take responsibility for optimizing economic performance – for example, the government or organized business – or competitive selection in something like an efficient market for national institutions. However, neither an all-powerful and theoretically competent system designer (Streeck 2004b) nor a market selecting institutional

configurations on their complementarity can be identified for contemporary capitalist countries (for an extensive discussion of the German case see Streeck 2009, Chapter 13).<sup>51</sup> In both respects, Paul Krugman's dictum applies that "a country is not a company" (Krugman 1996): not only can it not be structured and restructured from the top for the purposes of efficiency and competitiveness, but it comprises a broad variety of sometimes conflicting objectives that cannot be authoritatively reduced to a single common goal, even that of economic efficiency or prosperity.

A *third* issue, which is closely related to that of functionalism, is the inherent economism of the VoC paradigm, as evident in its self-professed "firm-centeredness" and its marginalization of politics in favor of policy<sup>52</sup> and of culture in favor of efficiency (Dore 2003). While traditional theories of capitalism have conceived of their subject as a society contingently and unfortunately driven by its economy, in VoC capitalist society tends to be treated as an economy, and society and economy as happily unified in a joint search for economic efficiency.<sup>53</sup> This is close to the rational choice institutionalism of the early Douglass North (North/Thomas 1973). Commentators have pointed to the virtual absence in the VoC paradigm of labor as an actor with interests different from those of capital (see, among others, Howell 2003). They have also pointed to the theory's neglect of the political as distinguished from the economic conditions of social stability and change (Amable/Palombarini 2009). Others have emphasized the absence of cultural motives as opposed to economic ones in VoC accounts of stability and change in capitalist political economies (for example, Bruff 2008).<sup>54</sup> Drawing on the case of Germany since the 1970s, Streeck (2009) has argued that, empirically, capitalist development cannot be explained as a result of rational economizing but must be accounted for as shaped by a conflict between profit-seeking and the social countermovements contesting the dominance of capitalist market relations over social life.

An important aspect of the underlying economism of mainstream VoC theory is its firm- or employer-centered account of the origin and function of the welfare state as

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51 As Amable has argued, complementarity in the sense of a good functional fit between institutions often comes about by accident (Amable 2003), or it may be the combined result of improvisation and conjunctural good luck, and is likely therefore to be only temporary (Streeck 2009).

52 Compare Pontusson (2005: 164): "The VoC approach theoretically privileges considerations pertaining to efficiency and coordination at the expense of considerations pertaining to conflicts of interest and the exercise of power."

53 Marxian materialism considers the rule of the economy over society under capitalism as an historical anomaly that must be overcome by revolutionary politics if civilization is not to perish. By contrast, "vulgar materialism," the rise of which in the nineteenth century made the late Marx insist that he was "not a Marxist," sees the dominance of the economy over society as normal, and undertakes as a theoretical strategy to explain the social by *reducing* it to the economic. Much of today's political economy literature is in this sense vulgar-materialistic.

54 While Hall and Soskice mention culture, albeit only as a lubricant for effective coordination of economic transactions (ibid.: 12–14; see also Dore 2003), Bruff (2008) insists on a Gramscian concept of cultural hegemony shaping and stabilizing historical social formations.

an institutional device designed to enhance the efficiency of economic transactions. Several chapters in the 2001 volume, very much in the “Third Way” spirit of the time, suggest an economic-productivist explanation (a “welfare production regime theory”) of the rise of social protection (Estevez-Abe et al. 2001; Mares 2001), contradicting the power resource model of capitalist variety. The difference is nicely detailed, and the difficulties of the economistic position are spelled out at length, in a pointed rejoinder by Korpi (2006).

The key concept in the economistic reinterpretation of the welfare state is asset specificity (Iversen/Soskice 2001), and the substantive area in which it came to be primarily applied is skills and skill formation (Culpepper 2002; Iversen/Stephens 2008). As Korpi (2006) has pointed out, these take the place in welfare production regime theory of class and class politics in traditional theories of capitalism. According to Williamsonian institutional economics, transactions involving specialized assets are more vulnerable and therefore less likely to come to pass. For them to be possible, more sophisticated coordinating institutions are required offering reassurance to actors that would have to invest in transaction-specific assets. Asset theories of capitalist variety explain political-economic institutions, in economic-reductionist fashion, by the kind of assets traded in economic transactions. Thus differences between capitalist political economies with respect to labor market and welfare state institutions are explained as voluntary differences in typical skill endowments giving rise to different preferences of the median voter. In particular, the presence and absence, respectively, of employment protection and unemployment insurance in “CMEs” and “LMEs” is accounted for by the fact that skills in the former are presumably more specific and in the latter more general, in the sense of more widely and easily transferable (Estevez-Abe et al. 2001). The argument – which explains low social protection in the US by economically rational low demand for it on the part of workers – has triggered extensive debate, both empirical, in particular with regard to how “skill specificity” may be measured, and theoretical (Korpi 2006). Reviewing that debate, Galie (2007) concludes that power resource theory trumps VoC in accounting for different patterns of labor market regulation and, in particular, of constraints on employers. Most recently, it has been argued that the transferability or non-transferability of skills is less an intrinsic quality of the latter – and thus exogenous to a country’s regulatory institutions – than something determined by institutional arrangements (Busemeyer 2009).<sup>55</sup>

The *fourth* major issue in debates on capitalist variety is change (on the following, see Deeg/Jackson 2007). Little is said in standard VoC theory about the historical development of the two polar types, “liberal” and “coordinated.”<sup>56</sup> As to “LMEs,” there is no indication of how the New Deal in the United States or the postwar welfare state in Brit-

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55 In particular, low transferability of Japanese skills is due not to narrow specialization, or skills being too firm-specific to be transferable, but to Japanese employers not allowing workers to enter internal labor markets except at the bottom, to deter them from moving and make them dependent on their present place of employment.

56 But see Hall (2007).

ain – as associated, for example, with the Beveridge Report or T.H. Marshall’s celebration of a politics of social rights (Marshall [1949]1965) – might fit in the conceptual framework. That both countries had been much less market-liberal in the past than they were in the 1990s, and that this remains unaccounted for in the Hall and Soskice approach, has been noted by critics such as Goodin (2003).<sup>57</sup> As to “CMEs,” they are styled essentially as frozen in the shape they may have had in the 1980s, their subsequent “liberalization” being treated as typologically insignificant. In critical response, several authors emphasize what they describe as a parallel, equidirectional movement in advanced political economies, regardless of type, towards more market-conforming modes of governance (Schmidt 2003; Thatcher 2004; Hay 2005). While parallel change in the same direction need not lead to convergence (Schmidt 2003), it indicates a systemic dynamism not envisaged by the paradigm leading, among others, the editors and authors of a voluminous collection of critical essays on the subject (Morgan et al. 2005) to urge a shift of focus from static comparativism to a generally more dynamic perspective on firms and institutions.<sup>58</sup>

Generally, the emphasis of VoC theory on complementarity as the force organizing national institutional configurations limits the possibilities of institutional change (Deeg 2005). Still, as Goodin reminds us (2003), the bipolar LME/CME schema does allow for two modes of change, both of which are seen as occurring at the “coordinated” end of the typological continuum. One is erosion of trust which, as Hall and Soskice note, is easier to start than to stop (2001a: 63); the other is financial deregulation, which, according to them, could be “the string that unravels coordinated market economies” (ibid.: 64). While this might be read as a reference to the process of systemic liberalization observable in the 1990s throughout the capitalist world, conceptually, both erosion of trust and financial deregulation appear, rather than as historical trends, as contingent events that could in principle be reversed. In particular, there is no indication that they might be linked to specific socioeconomic interests in or conflicts over systemic change. The same applies to international pressures, which appear as reinforcing instead of undermining the – static – differences between the two main types (ibid.: 54f.). Referring to the treatment of institutional change in VoC, Hay writes of “a rather agentless and apolitical conception of institutional adaptation to largely exogenous challenges and imperatives and an overly mechanistic understanding of ‘bifurcation’ or ‘dual convergence’ amongst models of capitalism in response to globalization” (Hay 2005: 120).<sup>59</sup>

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57 The fact that liberalization and deregulation in the United States in the 1970s had to be aggressively advocated and fought for by economists such as George Stigler and social movement leaders such as Ralph Nader (with regard to corporate governance; Canedo 2009) has no place in the static typology of the mainstream varieties-of-capitalism paradigm.

58 See also Jackson and Deeg (2006: 3), who on the basis of a critical inspection of VoC and similar approaches agree that the way forward for a comparative study of capitalism “lies in developing a more dynamic view of individual institutions, the linkages between domains, and the role of politics and power.”

59 The extent to which “globalization” affects national institutional arrangements is of course an old theme. Recently, the VoC debate has been tilting towards the view that economic interna-

This seems to hold also for Hall and Soskice's admission that tight inter-institutional coupling for complementarity might not just prevent institutional change, but could also facilitate it (ibid.: 63f.). Here, too, no room is reserved for political contestation of the socioeconomic order, whether "LME" or "CME," or for historical periodicity and the possibility of a limited lifespan for one or both of the two main types.

As indicated, much of the VoC discussion after 2001 was of how to identify and account for institutional change, especially change in the direction of liberalization (Streeck/Thelen 2005). In fact, critical debates on VoC contributed importantly to the emergence of institutional change as a central issue in historical institutionalist theory (Mahoney/Thelen 2010; Thelen 2010). Within the VoC mainstream, efforts were undertaken to make the original formulation more dynamic by softening its static-functionalist edge (Hall/Soskice 2003; Hall/Thelen 2009). Whether or not the static functionalism of the 2001 essay was just read into it by its critics, as its defenders sometimes but not always suggest, need not be decided here; if it was a misreading, however, it was certainly a widespread one.

Related to the discussion of change in VoC are recent attempts to ground the LME/CME distinction in the long-term political history of nations. In a widely read article, Cusack, Iversen, and Soskice (2007) try to establish a link, going back well into the nineteenth century, between types of capitalism and electoral systems.<sup>60</sup> The claim is that early liberal economies gave rise to majority voting systems, whereas economies with traditionally high coordination favored proportional representation. Again, the suggestion is that the connection lies in the predominant nature of economic resources. While proportional representation is said to support regulatory regimes that protect "co-specific investments," majoritarian systems allegedly suit the political-economic interests of capitalists employing more mobile, general assets. Subsequent discussion will have to explore whether the correlations on which the theory is based are more than spurious and in what direction, if any, the historical lines of causation run.

## 7 From static variety to dynamic commonalities

The worldwide economic crisis that began in 2007 has revived interest in what different national capitalisms have in common and how they are connected, as opposed to where they differ. In particular, as the sudden outbreak of the crisis has drawn attention to the

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tionalization does erode national "models" (Cerny et al. 2006), especially in Europe, where it takes the form of European integration (Menz 2005), and that it changes, in particular, "social" forms of capitalism in the direction of a more market-driven economic order (Perraton 2009).

60 For another, less functionalist and more qualitative account of the history of capitalist variety see Hall (2007).

dynamic nature – the *Eigendynamik* – of capitalism, the VoC typology is found wanting with regard to the nature of the beast whose diverse appearances it pretends to explore.<sup>61</sup> The crisis has also brought back the memory, still vivid until only a few decades ago, of the self-destructive potential of capitalism – a topic that was at the center of traditional theories, from Marx to Schumpeter, but had been lost in rationalist-functionalist accounts of capitalist diversity, as constructed in the “end of history” decade of the 1990s. Moreover, the crisis has thrown into high relief the international interdependence of national capitalist economies and societies, which causes developments in one country to have potentially far-reaching consequences in others, regardless of whether they are of the same “variety” or not.

In the following, I will single out four themes that future research on capitalism will likely have to address, themes that as far as I can see call for a paradigm shift from a focus on static varieties of capitalism as a socioeconomic formation to a focus on its dynamic commonalities:

(1) Older theories describe capitalism as a uniquely dynamic and thus fundamentally modern economy-cum-society that is constantly evolving, driven by endogenous pressures for continuous expansion. Static “models” of capitalism have failed to capture the genuinely historical nature of a nontraditional political economy evolving into an open future (Keynes 1937). Capitalist development, of whatever “variety,” has been described as a self-driven expansion of market relations, extensive with regard to their territorial reach and intensive in terms of a progressive commodification of social relations (McMurtry 1999). It is this process for which Rosa Luxemburg, a much underestimated theorist of political economy, coined the metaphor of *Landnahme*, or land-grabbing (Luxemburg 1913). The idea behind it is reflected in the inability of modern economics and political economy to imagine a “variety” of capitalism that is not growing, that is, not commodifying and monetarizing more and more social transactions so that their “value” can be measured and a surplus can be extracted from them.<sup>62</sup>

Capitalist development has often been conceived as subject to historical periodicity. Periods, or stages, of capitalist development have always been central to the approach of the French *régulation* school (Boyer 2001, 2005; Boyer/Saillard 2002). While the *régulation* approach does recognize differences between national capitalisms and tries to interpret them systemically, it is also and perhaps primarily concerned with the evolution of capitalism over different historical periods. Central to it is a notion of endogenous

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61 As Pontusson laconically puts it (2005: 164), “the VoC literature has a great deal to say about ‘varieties,’ but surprisingly little to say about ‘capitalism.’”

62 All notions of capitalist development go back, in one way or another, to Marx’s concept of extended capitalist reproduction, as summarized in his famous  $M \rightarrow C \rightarrow M'$  formula. The formula represents the process of capital accumulation through the extraction of surplus value. Another way of understanding the specific dynamic of capitalism is to emphasize its intimate relationship with a credit system that requires growth as a condition of future repayment of current debt (Ingham 2004).



crisis of each capitalist “growth regime,” leading to a search for a new institutional equilibrium which, however, will also serve only for a limited time span. A post-VoC theory of capitalism can borrow from the *régulation* approach the notion of periodicity, without necessarily buying into the idea of political-economic equilibrium. In contrast to VoC, its central message might be, not that *different* capitalisms can be *equally* “successful,” but that there was a period in the history of capitalism when capitalism *as such* was successful, followed by an extended crisis and a historical effort, with open event, to establish an effective post-Fordist accumulation process.

In any case, bringing historical dynamics back into the study of capitalism allows for recognition of the parallelism and interdependence of the tendencies toward liberalization that have been dominant in Western capitalist societies since the 1980s. In this vein, Albo (2005) suggests that VoC has not captured the variety of *capitalism as such*, but rather that of the *neoliberalism of the late twentieth century*, or what he calls the “new capitalism.” From a dynamic perspective, late-twentieth century liberalization can be thought of as an interconnected common response of national capitalisms after they had become stagnant in the 1970s, in particular as an attempt to escape from the political constraints imposed on capitalist accumulation in the New Deal and the post-war settlement after 1945 (Glyn 2006).<sup>63</sup> Again, traditional theories of capitalism, here the notion of capital accumulation proceeding by way of market pressures breaking through their institutional containment, seem to offer a more realistic account of the working of the capitalist political economy than concepts of bifurcated convergence on two alternative, equally transaction cost-efficient “models” of a “market economy” conceived of as an equilibrated machine for the production of prosperity.

(2) Growing inequality in all variants of capitalism (Pontusson 2005) and the bailout under duress of the global financial sector by governments at the expense of citizens have made efficiency-theoretical accounts of capitalism and its “varieties” even less convincing. As a consequence, the monistic image of a capitalist political economy as a joint enterprise of firms and governments working together to increase “efficiency” may be expected increasingly to give way to a more pluralist model of capitalism-as-capitalism, instead of capitalism-as-market economy – a model that assigns a prominent place to conflict and contradiction, in addition to and probably prior to cooperation and coordination. Concepts such as power, as in the power resource model, and constraint, as in historical institutionalism, will need to be brought back if the dynamic of capitalist development is to be understood. This includes the notion that conflicts under capitalism, fought out with political power and constrained by institutions, are conceived as more than just struggles over the distribution of the results of joint production: importantly, they are also about which spheres of life should legitimately be subject to commodification, and which should remain protected from the expansion of market relations.

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63 For a recent attempt to revive convergence theory to account for the parallel neoliberal evolution since the 1990s of industrial relations in European countries, see a brilliant, empirically based paper by Baccaro and Howell (2010). See also Christel Lane (2005) with regard to corporate governance.



Capitalist societies, this implies, and indeed all societies, should not be modeled as dedicated to just one objective, even if that was to be their “survival” in economic or political “competition.” This is the fundamental idea behind Polanyi’s image of capitalist development proceeding through a “double movement”: a struggle between the forces or tendencies of commodification and of the “disembedding” of market exchange on the one hand, and those of containment of commodification, or “re-embedding” and social reconstruction, on the other.<sup>64</sup> The same idea underlies Habermas’ notion of a conflict between capitalist rationalization and the “life world” (Habermas 1987). A theory of capitalism that recognizes the pluralist, multi-dimensional and internally conflicted nature of social systems restores politics to the central place it deserves, in contrast to efficiency theories in which politics is about no more than the instrumental problem of defining and implementing the most efficient institutions for the essentially technocratic task of “coordination.” Moreover, a theory like Polanyi’s that conceives of politics as an open struggle between values and interests that are not easily reconciled, if at all, ceases to be deterministic, just as the dynamic of social development that it describes no longer needs to appear to be one-dimensional or linear. Among other things, this makes it possible to allow for capitalist expansion to be halted for historical periods, or to have to move one step back for every two steps forward, or even to be reversed if a resisting society defending its cohesion and seeking security from the vagaries of markets manages to build up enough political muscle for the purpose.

An elegant way of restoring politics, conflict and power to the study of capitalism without abandoning production, cooperation and coordination – the principal concerns, in other words, of VoC – has been suggested by Martin Höpner (2007). Höpner argues that “nonliberal” capitalism was not just *coordinated* but also *organized*, with institutions providing not only for the efficiency of markets but also for their social containment and control. The implication is that nonliberal capitalism can become less organized, and in this sense *liberalized*, without necessarily becoming less coordinated. While the differences *in production regimes* that are central to VoC may remain, *political regimes* may become more similar as the social obligations imposed on firms under organized but not under coordinated capitalism wither away.<sup>65</sup>

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64 This reading of Polanyi is, of course, in sharp distinction from the “always embedded,” functionalist tradition of the, mostly American, Polanyi reception (Streeck 2009, Chapter 13). That ultimately no economy can work without social integration is no reason why “disembedding” should not be tried by capitalist actors seeking individual advantage and freedom from collective constraint. Nor is there any guarantee that societies will always be able to invent and build the institutions required for embedding or re-embedding a self-driven, expanding system like modern capitalism. The hard core of Polanyian theory is that the institutions that capitalists may be able to construct voluntarily for their own benefit – that is, in their search for profitable efficiency – are not enough to secure the social integration and cohesion ultimately required for a functioning economy and, thus, for their search for profit to be sustainable. See Beckert (2009).

65 While strongly emphasizing the role of politics in the “coordination” of capitalist political economies, Martin and Thelen (2007) do not distinguish between state intervention facilitating productive cooperation and state intervention constraining the more powerful participants in market exchange. The critical distinction in comparative theories of capitalism today seems to

(3) Arguing against neoliberal theories of and demands for convergence on a single, market-driven “best practice” model of capitalism, theories of capitalist variety have tended, not only to neglect the commonalities of national capitalisms, but also to downplay their interdependence. The dramatic events after 2007, with a bubble in the US subprime mortgage market resulting, among other things, in millions of people around the world having to spend years of their lives unemployed, not to mention the possible bankruptcy of sovereign states, are beginning to revive memories of the Great Depression and the tight coupling of national capitalisms in an encompassing world system. Theories of capitalist variety in the 1990s emphasized the limits imposed by pressures for complementarity or, in the historical-institutionalist model, by path dependence on the diffusion of institutionalized practices from one country to another, and in this sense on cross-national convergence. That boundary-crossing transactions, in markets as well as inside multinational corporations, had increased in significance in recent decades was sometimes recognized, although it was typically claimed that internationalization had not advanced much beyond what it was before the First World War. Even where “globalization” was considered important, however, the argument was basically that its impact on national political economies was sufficiently moderated by national institutions to keep the identity and autonomy of national variants of capitalism intact (Hall/Soskice 2001a: 54f.).

It is hard to see how a view as sanguine as this could survive the experience of the global crisis and its proliferation along the transnational linkages created by dynamically expanding international markets, in particular for finance. What might have to be overcome in future theory and research is not just a lack of systematic attention to international interdependence and the possibilities it creates for institutional diffusion. Even more importantly, the very notion of sectorally and institutionally complete, symmetrical and therefore comparable national capitalist systems may have to be given up. If it is true that national financial sectors have long been effectively integrated into a global financial industry headquartered in the United States, this must cast doubt on the continued applicability of the rationalist-functionalist core concept of complementarity. At the time of writing, it seems more than possible that the effort of capitalist states to re-regulate the financial industry, jointly or individually, will end with the realization that the only country that is still institutionally complete – that is, which has a financial sector of its own that it can decide to regulate or not to regulate – is the United States.<sup>66</sup> All others may have no choice but to follow and live with what the United States is willing or able to do.

(4) Ultimately, political economy might have to abandon entirely the idea of *national varieties* of capitalism and advance towards a concept of an *internationally variegated* capitalist world system. There is no need for a theory of global capitalism to deny the

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be if they ascribe more functions to politics than merely providing support for efficient and competitive production.

66 China might be another such country, but if it was, the implications are far from clear.

possibility of diversity, along national or regional lines, just as current theories of national capitalism sometimes allow for internal variation between regimes and practices by subnational territories or economic sectors. In recent years, the concept of “variegated capitalism” (Peck/Theodore 2007) has been put forward in explicit criticism of the VoC approach, not in an attempt to deny differences, but in order to place them in a context of economic and political interdependence.

Conceiving of capitalism as a more or less integrated global system<sup>67</sup> must not, of course, be taken to imply an equally integrated global regime of economic governance, let alone of political government. This would amount to another functionalist fallacy, as there is no reason to believe that, where market relations spread, they are automatically followed by institutions regulating them, even though their long-term stability would depend on this. To the contrary, it seems to be characteristic of capitalism that market expansion tends to outpace institution-building, even where regulation may be desirable and is in fact desired by market participants themselves. For regulation to follow market expansion, a political capacity is needed that is capable of disciplining the potentially self-destructive actions of self-interested, essentially anarchic profit-seekers. The existence of such a capacity cannot be taken for granted, and where it exists it may become obsolete or fall apart in the course of social or economic change. The crisis has restored the memory – and may increasingly do so – of the fact that, unlike the neoclassical model, a real-world capitalist political economy-cum-society has no equilibrium that it could and would attain and maintain without political intervention. If this holds for national capitalisms, as it clearly does, it should hold all the more for capitalism as a global system.

## 8 Towards a new paradigm: A tentative summary

Current tendencies in the study of the capitalist political economy, as inspired by a decade-long debate on VoC as well as by contemporary events, are summarized in Table 2. Increasingly, equilibrium theories of national institutions are giving way to theories emphasizing institutional change, both endogenous and driven by globally expanding markets. Theoretical interest is focusing less on the self-stabilization of complementary institutions at national level and more on the international dependence and interdependence of national institutional configurations embedded in global markets, as distinguished from embedding national markets. Markets are studied as potentially destabilizing their institutional context, rather than as being always and necessarily stabilized and contained by it, and as expanding faster than the institutions by which they are supposed to be regulated. In the emerging new paradigm for the study of capitalism – which has much similarity with older paradigms – maximization of profit takes the

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67 As suggested by, among others, Panitch and Gindin (2005).

Table 2 Varieties and commonalities of capitalism as competing paradigms:  
Areas of attention and leading concepts

"Varieties"	"Commonalities"
National institutions	Global markets
Institutional sovereignty	Institutional (inter-)dependence
Market-conforming institutions	Markets subverting institutions
Static reproduction of institutionalized economic relations	Dynamic expansion of institutionally subversive economic relations
Politically reproduced economic stability (performance)	Economically driven economic instability (evolution)
Institutions leading the economy	Institutions lagging the economy
Efficiency-maximizing institutions	Profit-maximizing agents
Economic relations socialized	Economic relations under-socialized
Institutional coherence	Institutional contradictions
Cooperation	Conflict, compromise
Differences between places (nations)	Differences over time (periods)
Countries as firms	Countries as republics

place of maximization of efficiency, and economic outcomes are attributed as much to agents interested in private gain as to public institutions designed to ensure an efficient use of scarce resources. Empirical research is increasingly looking at crises and contradictions instead of stability and coherence, conflict is considered the rule rather than the exception, and compromise is expected to precede cooperation. Differences over time between periods of capitalist development trump differences between places, or countries (Coates 2005a). Instead of competition between countries and coordination within them, political economy is again giving primacy to conflicts between actors inside and outside of markets over where the laws of the market should apply and where not. The political may finally be put back into political economy as it ceases to consider countries as firms and polities as "firm-centered." Instead, it may rediscover them as republics housing a variety of conflicting economic and non-economic concerns, all of which in one way or other related to the inherent dynamism of the capitalist mode of production and in need of adjudication through national and international politics.

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