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The problem of American capitalism

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Is the 1990s model of share market dominance the best model of economic growth?

It was a core pre-occupation of Margaret Thatcher that the European Union should not impede the Americanisation of Britain; an important aim of Tony Blair has been to assist the Americanisation of Europe. It might be thought that this depicts the Blair project as grandiose and hubristic, but not so. The New Labour team showed far greater insight than the Conservatives in seeing that, while many in European Union circles were hostile to major aspects of US society and economy, at least as many others, and more powerful ones, had come to see a solution to many of Europe's economic problems in the adoption of US approaches. Understanding this, and its particular relevance to the United Kingdom, helps us in turn to understand certain fundamental characteristics of New Labour, especially its approach towards capitalism. It also leads to some uneasiness.

One aspect of the issue is technical, but it has political implications. Many aspects of European integration require the Europe-wide development of lowest common denominator (LCD) rules that minimise the need for shared understandings and emphasise explicitness. If, say, Danish and Portuguese firms are to find it easy to do complex business together, they will be unable to use the tacit knowledge that each brings to bear when dealing with firms from their own cultural and social base. Whereas the national institutions of most European nation states, like those of Japan and many other countries, have usually relied heavily on such understandings – saving on many transaction costs in so doing – this has never been possible for the US system. It has had to address a society of strangers, from a wide and ever growing diversity of backgrounds. It has to be an LCD system; and everything must be transparent and spelt out – just as an American restaurant menu has to describe each dish in laborious detail, as it cannot be assumed that anyone knows to what its name refers.

Therefore, Europeanisation means Americanisation, in at least this formal sense of moving to more explicitness and transparency. In practice it often also means substantive Americanisation. US approaches – to corporate governance, to the presentation of company accounts, to how to run a stock market among anonymous investors – have already solved many of the problems with which European integration is grappling (Story and Walter 1997). Straight imitation of US models often avoids reinventing the wheel. These characteristics apply particularly to the large and continuing wave of integration measures unleashed by the Single European Market programme of 1992.

Most of the period in which this programme has been running has coincidentally resembled that of the immediate post-war years – though few of the intervening ones – in that the US economy has been the most successful in the world, bouncing back from its poor performances during the 1970s and 1980s. Meanwhile, most European economies have seen reversals of their earlier successes. During the 1990s the American way has therefore become, not just the most practicable way, but also the most successful

one. Often the former has helped the latter; European firms face a learning curve in trying to do things the American way, which confers on US firms an important first mover advantage in global competition.

But the political meaning of America has changed profoundly since the earlier wave of European imitation of that country immediately after World War II. True, in both periods European business and other right-wing elites found in the USA a message of reassurance that they could survive and thrive alongside democracy, following periods of upheaval when many of them had doubted that possibility. However, the survival recipes of the two periods were very different. New Deal America proclaimed that capitalism and resolute anticommunism could thrive alongside mass prosperity, a working class lacking in social deference, powerful trade unions and a welfare state. (Times have changed so much that we forget that until the 1960s the USA, alongside Scandinavia and the UK, had more highly developed social policies than most of continental Europe.) Lack of confidence that such odd bedfellows could coexist had led many European elites into the arms of fascism in the inter-war period, so there was real truth in the image of the USA educating European elites in democracy.

However, in the 1990s the USA seemed to demonstrate that the continuing stability of capitalism no longer required any of those compromises. The social tensions produced by rapidly growing inequalities could be more effectively and directly tackled with heavy public and private policing and increased incarceration than through welfare policy. More important, a low-welfare economy seemed better able to provide employment for the low skilled than the now stronger welfare states of much of western Europe. And the maximisation of shareholder value seemed to be providing a better base for an economy built on advanced science than the ostensibly more long-termist operating principles of the financial systems of Germany or France.

Perhaps most impressively, the US stock market had begun to play an historically new role of sustaining mass consumption. A combination of the new emphasis on share values, their spectacular growth within the infant information technology industries, and the increased accessibility of share purchase through that technology itself, produced a considerable broadening of share ownership and an unprecedented period of sustained growth in financial markets. Despite wage levels remaining virtually static for a decade for those outside the corporate elite, very large numbers of ordinary Americans experienced growing asset values of a kind they had never seen before, and on that basis alone sustained very high levels of consumption.

Stock markets became a kind of privatised Keynesianism. By artificially stimulating confidence (through share values far in excess of any realistic estimate of company worth based on trading performance) it enabled consumers to behave in a way that eventually justified that confidence. But the political implications were very different from Keynesianism. Whereas the latter was based on stable employment, government spending (largely on welfare purposes), and the mass prosperity of the working class, expansion sustained by stock-market values was founded in processes which strengthened the concentration of power and wealth in the hands of capital and of the managers whom it rewarded with vast stock options. Much of the consumer spending went on imported goods from abroad, leading to spectacular trade deficits, but these were easily financed as US stocks attracted foreign investors, especially from Japan, boosting Americans' asset values even further. Meanwhile consumer expenditure on services remained largely within the USA and supported the growth in low-skilled, low-wage jobs which, combined with harsh benefit eligibility rules, solved the unemployment problem.

This was deeply comforting to the economically privileged everywhere, producing a broad consensus, extending to international organisations like the Organisation for Economic Co-operation and Development, that the American way was not just the best way, but politically the most attractive.

By the late 1990s it changed to being seen as the only way. Very few observers questioned the conclusion that US capitalism had now conclusively won, not just a battle of the systems against communism, but one

against the now unnecessary welfare state compromises of western European social and Christian democracy too. Everything American was associated with success, everything elsewhere with failure. Western Europeans have been outdoing their Eastern neighbours in dumping their local cultures and institutions to embrace, not just American business practices, stock-exchange methods and accountancy systems, but also American food, fashion, cinema and music.

That British Conservatives should be eager to be part of this new system was obvious. As a thoughtful article by the American social historian James Cronin has recently shown (2000), what is today taken for granted as the 'Anglo-American' system was not something dating back to the pilgrim fathers, but largely a forced political creation of the Thatcher governments. It was achieved with a number of strong actions, from suppression of trade unions to the stock exchange reform. Before the mid-1980s the UK had been a more distinctive society in its own right. No-one really interpreted what was going on in these terms, as the change was largely presented as a protection of Englishness against a monster called Europe. It was skilful of the British right to see the winning characteristics of the US model at a time when it had still been clearly under-performing in comparison with most of western Europe; it showed less skill in not noting how widely this perception would be shared among other European elites.

Parts of this legacy were then surprisingly welcome to the new British Labour government – but not just because it perceived, where Conservatives had not, that the UK had acquired respect as the nearest thing to the admired American system that was actually within the EU. Itself trying to cut free from an inconvenient industrial and class past, New Labour was interested in anything that seemed to release it from the familiar patterns of the post-war world. Novelty and modernisation were embraced as values in themselves, as was anything able to float away from a social context as the new US information economy seemed able to do – *Living on Thin Air*, as the book by Charles Leadbeater (1999), New Labour's favourite economic expert, was entitled. New Labour; New Economy. Labour came to office after the new period of dominance of the US economy had become a fact, and quickly adjusted itself to the new tunes. More challenging original New Labour concepts – like the stakeholder economy, which clashed with shareholder value maximisation – disappeared from the agenda. Labour's distinctive contribution now would be to seek out niches where some social democratic concerns could still be expressed, provided they did not conflict with the new model of triumphant capitalism. The arrival of the Clinton administration, engaged on the same search for capitalist-friendly social democratic corners, was particularly opportune. Many continental social democrats – whose conservative opponents had not obliged when in office, as American and British ones had, by pummelling the unions and wrecking the welfare state – looked on anxiously for ideas to copy.

Are there any grounds for objecting to all this? The Thatcher, Major and Blair governments together have equipped the UK with a post-industrial economy more closely attuned to the opportunities presented by deregulated global finance capital than most – though not all – others in Europe. Labour-force participation is high, and public finances are in good order. A Labour government remained popular after a whole parliament for the first time since 1950; and it has made good its claim that it is possible to retain a number of social democratic concerns within an overall neo-liberal framework: the minimum wage; considerable fiscal and substantive help to working women and poor families; higher levels of public spending than a strict neo-liberal agenda would require.

But social democrats and other liberal egalitarians are as distressed as conservatives are delighted at the undoubted reactionary components of a general adoption of the US model, in particular by growing inequalities and the gradual replacement of the welfare state by the law and order state. They and even wider circles will be alarmed if Britain's role as the USA's standard-bearer within Europe survives unscathed the shift to the Bush administration – a regime of doubtful democratic credentials, standing to the right even of the contemporary Conservative Party, and bent on an armaments policy that will endanger

world peace. But these last are not our concerns here. Are there any *economic* grounds for regretting New Labour's conversion to the new US model of capitalism?

Grounds for doubt

There are certainly questions to ask. First, the whole rhetoric of historic system triumph overlooks important elements of contingency. The USA started to outperform most EU economies during precisely the years when: (1) the latter were engaged in a major belt-tightening exercise (itself ironically inspired by right-wing economic theories) to prepare themselves for the unique historical event of forming the single European currency; and (2) Germany, the leading European economy, was trying to absorb the bankrupt economy of East Germany and its 16 million people. Also, American 'out-performance' was confined to certain indicators, largely new technology industries and lowskilled services, the latter helping to give the USA its low levels of long-term unemployment. On the simplest measure of competitiveness, the USA continued as before to be a major net importer of manufactured goods from EU countries and Japan, while the low-skilled services in which it experienced extensive job growth were usually not involved in international competition.

Further, both admirers of the USA and its European critics have exaggerated the homogeneity of the so-called 'European social model' against which the USA is rhetorically compared. In particular, it is rarely noted that the parts of Europe which today most closely resemble the USA on the key datum of having weak welfare states (mainly southern countries) are the ones with the highest unemployment and the least competitive economies. The better performing European economies include several with the strongest welfare states. The only social policies which seem strongly related to low employment levels are employment-based social insurance charges and policies which discourage women from entering the labour market. The former is not essential to a strong welfare or egalitarian model. The latter is concerned with Christian rather than social democratic concerns; indeed, female labour force participation peaks in both the neo-liberal Anglo-American case and in social democratic Nordic countries.

More important is the fact that, contrary to orthodoxy, the US economy does not simply comprise a mass of pure free markets, and neither does its economic dynamism derive from them. Fundamental is the country's world dominant position, which enables its standards and preferred world trade policies to become universal rules. Sometimes this is done by the sheer use of US political power, as when the US government backs lobbies by US companies within global standards-setting conferences, or when it uses its political clout to direct the attention of the World Trade Organisation to protectionist practices in other parts of the world but keeps attention off its own very considerable examples. At other times the sheer size of the USA provides market advantages to American corporations without any sinister activity at all. It is important to remember that only two national states have ideologically championed pure markets: the USA today and the UK during its period of imperial domination – in other words countries which were themselves not fully subordinate to that market by virtue of their global political power. As noted, there are also technical reasons for the dominance of US rules, which then confer some competitive advantages on US firms.

Another departure from the free-market stereotype is the role of the Defence Department in placing major contracts in the advanced science area, thereby providing major guarantees of long-term research and development and product innovation support outside the context of the market. This gives leading parts of the US economy advantages which are not easily acquired through the market itself – and would not be acquired by countries imitating the USA in a deregulation programme but lacking these crucial additional capacities. This has been fundamental to most sectors where the USA enjoys competitive superiority:

aerospace, computers, the internet. Because there is some kind of convention which rules defence and security out of consideration when levels of state economic intervention and industrial support are considered, this enormous activity is never included in accounts of how the US economy works, fostering the illusion that it is purely market-driven.

Further, and partly as a consequence of these other points, very major corporations, many of which enjoy monopolistic positions, are fundamental to the US economy, and these occupy powerful roles in lobbying US administrations for both domestic privileges and for state support in international regulatory bodies. Such firms in no way conform to the true free market ideal (Lazonick 1991; Hollingsworth and Lindberg 1985).

Finally, it was paradoxical that the NASDAQ new economy was seen as an epitome of the pure market model, since an important part of the hype about that economy was that US stock exchanges had discovered the secret of the eternal bull market, thereby defying the laws of supply and demand. There was a strong element of 'Roll over Adam Smith' in this rhetoric. This was not only a clear departure from the free-market model, but also unlikely, as we now know. But business people desperately wanted to believe in it. US dotcom enterprise seemed to represent every capitalist's dream: very little infrastructure, no responsibilities to any staff, and shares that would go on rising for ever even if you never sold a product. German capitalists – stuck with making goods that required major plant, large numbers of employees who had all manner of rights, real products that had to be sold and meet quality standards, with a mixed group of stakeholders owning the business and not caring much about share prices – wanted to escape into its freedoms (Dore 2000). It also fitted perfectly with New Labour's desire for a politics that could float free of institutional constraints, and for pure markets with none of their attendant down side.

In sum, the US economy is far from being a kind of text-book model of a pure market economy. This is a 'markets plus' economy like all other advanced and complex economies. In the US case this means that the economy is a mix of markets, plus large, politically active and monopolistic corporations, plus an active state in at least its military procurement role, plus occasionally the informal support structures of ethnic and religious communities which assist entrepreneurs in various non-market ways. Further, the New Economy did not wave a magic wand to wipe away all inconvenient aspects of the market component itself. The complete liberation of markets is therefore neither necessary nor sufficient for countries wishing to have the advantages of the American model. Those who demolish what have in the past been their advantageous characteristics but which today do not seem to be having the same results – such as the strong associational networks of German firms, or the technocratic French state – may find that they are simply left without anything other than deregulated, deinstitutionalised markets with which to confront US firms well equipped with other resources to supplement the market (Crouch and Streeck 1997). They may do better to refurbish their own 'markets plus' recipes. In fact, this is what many of them are now doing behind the neo-liberal rhetoric.

These arguments also show the wisdom of a strategy of closer European integration, so that the EU might become a rival world economic force, challenging at least some of the advantages of the USA's sheer size and global economic clout. This is not a matter of anti-Americanism. It requires only a few elementary concepts of pluralism – a doctrine which Americans taught the rest of us – to demonstrate, whether in the economic or the security fields, the undesirability of a world with a single major power source. In the security and monetary areas, though not in trade, this was something which the Clinton administration itself seemed to understand and accept very well.

Now that the stock-market driven new economy has shown its vulnerability, and some European economies – for example the Danish, Dutch, and French – have started to make reforms within their own terms, there is some hope that at least parts of the advanced world may find a way out of almost unthinking

US imitation – at least in order to build a European economy that resembles the American one in power and scope. On the other hand, the social and economic policies of the Bush administration are likely to make the US model even more attractive than before to Europe's executive classes.

The British dilemma

For Britain the question remains even more problematic. Unlike some, though not all, other EU states we had not developed a particularly successful national economic model in the period before globalisation. It was largely the Americanisation programme which by the mid 1990s had begun to give us advantages in financial services, a few high-tech sectors, and job creation in low-productivity services – though the extraordinary impact of Japanisation on the motor industry must also be remembered, if only to show that the British can jump through hoops other than those made in the USA. These advantages came, not only because we shared certain formal characteristics of US institutions, especially following the internationalisation of the City of London, but also because we have become the junior part of a joint Anglo-American political economy, and thereby derive certain benefits from our special relationship with the superpower. It therefore seems that we do not have the same balanced possibilities as many other EU members of combining certain elements of the US model with their own forms, dependent on their own shifting political preferences. Our own economic past is less attractive, while we are more firmly tied to the USA.

It is this which has made the Blair strategy of Britain assisting in the Americanisation of Europe less popular on the continent than it at first seemed, even among conservative forces. The UK continues to have an interest in ensuring that the EU does nothing which will compromise the unchallenged global dominance of the USA, from trade and environment policies to defence strategies. If, under the changed US administration, the gap between US and EU stances continues to grow, this will start to make sense of the current Tory approach: to use our EU membership to ensure that Europe can do nothing to realise its potential as a rival aggregation of economic strength to the USA, including trying to engineer the collapse of the Euro; and to link the UK either informally or even formally to the North Atlantic Free Trade Association. For British Conservatives this strategy has the added attraction that the hard-right social and other policies of US Republicans suit its own contemporary policy stance. For the majority of the British political spectrum however that is a deeply unattractive prospect. But there are also arguments against it from more general perspectives which even Conservatives ought to share.

First, there are limits to the rewards the UK can reap from being the USA's junior partner, and not only the obvious ones that follow from the fact that we can never be true insiders to the US system. There is also something about our own institutions. Although both British and American economies are often said to display the short-termism inherent in finance-oriented capitalism, this is in fact far more true of the British economy. We have only a few of the monopolistic giants which, in the US science-based sectors, are able even today to avoid the full rigour of shareholder value maximisation, retaining enough internally generated resources to sustain major R&D and other long-term product development programmes. Similarly, the USA is unlikely to put its weight behind the globalisation of British models and standards, a reliable resource for large US corporations engaging in major innovative programmes requiring costly investment. Also, US venture capitalism is not so oriented to helping only with start-ups, as is the case in the UK, but is likely to nurture firms in subsequent years.

It is notable that, despite starting much later than the UK, the German economy now has a larger venture capital component than we do, and is using it in a less short-termist way. One valuable lesson that has been learned in Britain from the USA is the linking of university scientists to innovative corporations,

especially in high-tech sectors, and during the 1990s we became stronger in some of these fields than other EU nations. There remain doubts however whether long-term finance will be available to sustain these activities in Britain after the experimental stage. Many of them, including their staff, will move to either the USA or some other European states.

Oddly, in some respects the UK has become less of a 'market plus' society than the USA, having lost confidence in our earlier potential 'plus' ingredients, while not having acquired those of the Americans. Some North American observers continue to see a greater level of non-market 'civility' in British social life, which they consider confers certain advantages on us (e.g. Hall 2000), though these are characteristics which are probably declining as we seek increasingly to reshape our cultural and educational institutions on American models.

Political problems of the US model

One particular lesson of the US business model is politically disturbing. This is the idea that business lobbies are almost the only legitimate interests that government needs to attune itself to, conceding virtually all their demands, and that government must model itself increasingly on business practice. Here again, the British imitation is becoming more extreme than the original case. This is partly because our (and other European) legal codes tend to give fewer countervailing rights to consumers and other parties liable to be aggrieved by business behaviour than do those in the USA, and partly because of the particular approach of New Labour.

A fundamental article of faith of the New Labour generation has been that the party must never again become the hopeless anti-capitalist body that developed during the 1980s. Demonstration of this determination has taken a number of forms, most inherited from Conservative predecessors who are therefore in no position to make criticisms. Ministers have held an open door to any business lobby that comes their way, contrasting sharply with their arms-length relationship with all social movements, especially those critical of business. This has had three particularly undesirable consequences. First, the career path from lobbying for an individual firm to acting as adviser to a minister, and back again, has raised grave questions, especially at a time when so much government business, from administering schools to guarding military bases, is farmed out to private firms on long-term contracts within not very competitive markets. Second, New Labour has made it clear that it likes the idea of massively expensive election campaigns funded by corporate donations – a straight US imitation. This funding dependence further clouds the relationship between politics and business.

Finally, New Labour has continued the Conservatives' approach to public services. Optimally these should be privatised. As a second best, the responsibility of a national or local government authority for a service should be limited to sub-contracting bits of it periodically to the private sector. Third best, if for the time being a service has to remain within the public realm, it should conduct itself as though it were a private firm, preferably under the leadership of people recruited from private business. Finally, those working in services which refuse or are unable to do this must have it made clear to them that they are inferior people following an inadequate model of action – it was partly this last that brought the recruitment of school teachers and National Health Service doctors to its current position.

This has several dangers. It further creates that world in which dubious relationships develop between government and those seeking contracts. It undermines the concept of an ethic of public service, once so important to British central and local government alike, and which set out certain ways in which public business should be conducted which differed in important respects from those of profit-making business.

The current orthodoxy, that public servants are either trying to learn the ethics of private business or they are idle time-servers, has no use for ideas of the special character of either public service or, somewhat separately, professional codes. Only behaviour according to the profit motive or pay-for-performance targets erected as analogues of it, is respected. From this flows the danger: that government becomes completely permeable by business; it cannot determine where its responsibilities or the public interest which it is supposed to guard differ – at best, from those of the generality of firms in the society; at worst, from those particular firms which have established special links with individuals in and around government.

Social democrats and left-leaning liberals have important reasons for anxiety at these developments, because they virtually guarantee the neglect of concerns dear to them: the rights of employees; the interests of ordinary people, weak in the face of corporate power; causes which cannot easily be fashioned into profit-making ventures; the natural environment. But a far broader spectrum of opinion should also be concerned at the mutual interpenetration of government and business to the point where their *modi operandi* become indistinguishable. The cumulative effect of these processes is to destroy the concept of government as something that stands outside of business, regulating its relations to the rest of society, and seeing to certain collective tasks which the logic of capitalism neglects or even destroys – but which might provide the crucial components of a ‘markets plus’ economy. Capitalists succeed by ruthlessly dropping all activities which do not secure maximum profits; that is how the system works and in many ways what one wants them to do. But, unless one believes in some formula whereby that which is profitable is by definition coterminous with all that is desirable, it has to be conceded that this process neglects and rejects some important priorities. If government is to be part of the means of rescuing these, it has to distinguish itself from the priorities of capitalism, and this inevitably requires distance, self-confidence, and tension in the approach of the political world to the business sector. This is hard to achieve when that sector has been elevated into the source of all necessary wisdom for the conduct of public affairs – not to mention of all party campaign funds.

To say this today is to be stigmatised as ‘anti-business’, but it was in fact politicians of the late Victorian period, most of them enthusiastic advocates of capitalism, who erected modern concepts of the public as against the private, and the distinctive ways of conducting affairs that were proper to the former. If we often regard the statesmen of that period as hypocrites, it is because they either compromised these ideals in practice or failed to extend them to enough issues. But the distinction was clear to them.

In fact, clear boundaries between government and business are fundamental to the *laissez faire* model of capitalism itself. It is only modern corruptions of that concept which interpret it to mean only avoidance of government intervention in business and not *vice versa* as well. One of the arguments advanced by classical and neoclassical economists is that firms which are looked after by political interests are likely to become inefficient and non-innovative. Sadly, many examples, from not only the USA but also from France, Italy, Japan and elsewhere, suggest that, given certain circumstances, government support provides an environment within which firms can take on particularly risky innovations – the opposite from what economic theory predicts. This is one aspect of a ‘market plus’ economy. But this does not diminish the *political* problem of business lobbies and the crowding out of those interests which are unable to attract corporate support.

We urgently need at the present time a redefinition of boundaries which both acknowledges the role governments can play in assisting business and capital, and sets out a suitably modernised concept of the distinctive role of government and its wider responsibilities, and of public service and its professional ethic. Present practice, originating in Washington but now entrenched in London and many other world capitals, is fiercely to propound the doctrine of the free market and restricted government, while in practice doing a large amount of public business with firms through barely acknowledged lobbying channels and influence networks.

Drawing the distinction between being anti-business on the one hand and being cautious and sceptical about the political use of power by business on the other is certainly difficult. But no good can come from the present tendency to smear the latter as synonymous with the former. This was certainly not the case of the Victorians who built the edifice of public service, and there are analogous examples from other contexts. Post-war Christian democrats had to make the Church understand that it was not just anti-religious secularists who needed to separate the powers of church and state. Charles de Gaulle had to teach his fellow generals that respect for the armed forces did not include allowing them to dictate French policy towards North Africa. It is actions of this kind that turn politicians into statesmen.

But all three of these examples themselves embody something which gives us further pause for thought. In each case the tough message was successfully delivered to the powerful interest only by its trusted friends. Does that mean that, to establish a proper relationship between business interests and politics we need to wait until statesmanlike capacity returns to the Conservative Party? Or until Labour has been fully accepted as being an unambiguous business party?

Conclusion

Reproblematising capitalism has many strands. In addition to traditional social democratic and left-liberal concerns, there are economic questions. Is the dominant orthodoxy, which attributes all contemporary economic success to the liberation of markets, an accurate representation of the US case? Is it wise to believe that the 1990s model of share market dominance has found the best answer to problems of growth and economic success? Should Europeans try to share American performance by subordinating themselves to US hegemony, or by trying to produce an alternative centre of global economic strength, and where does the answer to that question leave the UK? And what are the political and economic gains and losses from having a polity thoroughly permeated by business interests?

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