Review Article

Varieties of Capitalism

And Then There Was One?

Chris Howell

Peter Hall and David Soskice, eds., *Varieties of Capitalism: The Institutional Foundations of Comparative Advantage*, Oxford, Oxford University Press, 2001.

Wolfgang Streeck and Kozo Yamamura, eds., *The Origins of Nonliberal Capitalism: Germany and Japan in Comparison*, Ithaca, Cornell University Press, 2001.

David Coates, *Models of Capitalism: Growth and Stagnation in the Modern Era*, Cambridge, Polity Press, 2000.

The time is appropriate to reassess the state of comparative political economy. The discipline has reached a moment of theoretical synthesis, similar to that which existed around the concept of neocorporatism in the early 1980s, in which a series of discrete, incremental theoretical developments coalesce into a new theoretical paradigm. Something approaching a consensus has now emerged around the notion that national capitalisms are distinguished one from another by particular configurations of interlocking and interdependent political-economic institutions that produce different forms of behavior on the part of economic actors, different economic and social outcomes, and different patterns of economic development. These distinct national capitalisms are quite resistant to pressures towards convergence upon a single model of capitalism.

While emphasis on the institutional organization of capitalism has become steadily more important in the last two decades, it has, in the varieties of capitalism approach, achieved a level of theoretical sophistication, explanatory scope, and predictive ambition that has rapidly made it close to hegemonic in the field. A glance at papers and panels at recent conferences makes clear the extent to which this framework has come to dominate discussion. Three edited collections, sharing many contributors and much of this theoretical approach, have been published in two years. One of them, *Varieties of Capitalism*, which contains the central theoretical statement of the approach, is reviewed here.[1] This review also examines two other works that address the central concern of how to account for and evaluate distinct national models of capitalism but whose theoretical frameworks differ in important ways from *Varieties of Capitalism*, primarily in their emphasis on the state, political struggle, class conflict, and capitalist crisis. These two books build upon and to some extent point the way beyond the analysis provided in *Varieties of Capitalism.*

The resurgence of neoliberalism, most explicitly in the English-speaking world but also in countries like France and Italy where its hold had previously seemed weak, coupled with evidence of accelerating global economic integration, poses a challenge to any intellectual framework that posits the existence of distinct national models of capitalism and the persistence of nonmarket mechanisms of economic regulation. At the same time, the familiar pecking order of capitalist economies inherited from the 1960s and 1970s has undergone fundamental reordering, bringing into question established explanations of economic performance. The once dominant Japanese economy succumbed to a more than decade-long slump, while *Modell Deutschland* has appeared sclerotic since reunification. The United States and Britain, in contrast, long the economic laggards of the advanced capitalist world, have experienced rapid growth and impressive employment records. These shifts were bound to provoke some reevaluation of established categories and theories of political economy. All three books under review, it should immediately be noted, have responded to these developments by seeking to recreate and reinvigorate the intellectual space to comprehend the persistence of national divergence and the importance of nonmarket forms of economic regulation and to reject Margaret Thatcher's famous insistence that there is no alternative.

Recent developments within capitalist political economies created the impetus for a theoretical reconstruction of comparative political economy. But the manner of its reconstruction is also the product of a series of piecemeal theoretical steps taken in the last two decades. Four principal theoretical streams have fed into the emerging consensus. The first is obviously institutional analysis itself, as the study of institutions spread far beyond the state into the broader political economy and as institutions came to be understood as not simply refracting exogenous shocks but increasingly as having some independent power to structure the distribution of economic power and the interests and behavior of economic actors.[2] The second, and closely related, stream is the recent interest within political science in the concept of path dependence and its implications in understanding and identifying both lock-in effects and moments of institutional openness.[3] The third area of theoretical development has been within interest group theory, where the emphasis upon labor organization characteristic of debates over neocorporatism has given way to much greater interest in employer interests and organization. There are two distinct approaches to "bringing capital back in."[4] One emphasizes the central role played by employers in the construction and maintenance of industrial relations and welfare institutions and the resulting mutual gains of employers and trade unions that have permitted durable cross-class alliances.[5] The other has focused upon different forms of employer coordination, with or without the cooperation of labor, as an explanation of the behavior of economic actors and economic outcomes.[6] Finally, many different theorists have drawn attention to the existence of distinct national production systems. Piore and Sabel's *Second Industrial Divide* recovered a historical alternative to "Fordist" mass production, and scholars subsequently identified both alternatives to Fordism and different national and subnational Fordisms.[7] Thus, it became possible to put the theoretical pieces together in such a way as to identify persistent national patterns of economic development, each premised upon different political-economic institutions, forms of economic and social coordination, and cross-class alliances. Scholars could then begin the task of labeling types of capitalism.[8] These approaches all shared an emphasis upon national distinctiveness alongside a high degree of continuity within each country over time. In contrast, the influence within comparative political economy of theoretical currents that stressed an essential discontinuity over time in capitalist development, with some degree of convergence across countries at any particular time, waned.[9]

Varieties of Capitalism

The varieties of capitalism approach is theoretically sophisticated. In hindsight, it is possible to identify its precursors and several of the pieces of the theoretical puzzle, but the resulting analytical framework remains distinctive, original, and enormously ambitious. It is laid out in the superb introductory chapter to *Varieties of Capitalism* by Hall and Soskice and illustrated in the subsequent chapters, though one of the many interesting aspects of this book is the internal debates over the theoretical framework among several contributors. The book is described by its editors as "a work-in-progress...a set of contentions that open up new research agendas rather than settled wisdom to be accepted uncritically" (Hall and Soskice, eds., p. 2).

The introductory chapter is explicit about the distinctiveness of the analytical framework with regard to alternative approaches to political economy, which are criticized for overemphasizing the importance of both the state and labor. In contrast, the approach in Varieties of Capitalism is "a firm-centered political economy that regards companies as the crucial actors in a capitalist economy" (Hall and Soskice, eds., p. 6). The coordination problems facing firms and the firm as agent of economic adjustment organize and inform the analysis of institutions.

Like much political economy of the past two decades, the focus of *Varieties of Capitalism* is on "understanding institutional similarities and differences among the developed economies" (Hall and Soskice, eds., p. 1), but unlike most other institutional accounts the importance of institutions lies primarily in their capacity to structure strategic interaction between economic actors and solve firms' coordination problems. Thus, the importance of institutions is less that they distribute power or sanction behavior and more that they facilitate the flow of deliberation and information among actors, permit "decentralized cooperation," and solve familiar collective action problems, such as the underprovision of training.[10]

Institutions are rarely able to perform these roles in isolation. Rather, there are likely to be interactions and complementarities among institutions, such that one set of institutions functions more effectively, or indeed may only function effectively, when accompanied by other institutions. The chapters are full of examples of these complementary institutions. Franzese points to the linkage between central bank independence and coordinated bargaining in the efficient management of inflation and unemployment. On the one hand, central bank credibility is most effective when bargaining is coordinated. On the other, independent central banks and coordinated bargaining are partial substitutes for each other, suggesting alternative paths to low inflation. Mares explains the preferences of employers for different types of social insurance in terms of their reliance on skilled labor and incidence of labor market risk.[11] Estevez-Abe, Iversen, and Soskice also examine how different forms of social protection influence skill levels and internal labor markets. Particular forms of employment and wage protection have a differential impact upon investment in firm-specific, industry-specific, and general skills, which in turn explains the distribution of types of social policy across capitalist economies.[12]

These institutional complementarities have two important consequences. First, there is a tendency for institutions to reinforce each other, forming an interlocking ensemble spanning the spheres of industrial relations, the welfare state, and finance that is resistant to change. Change in the sphere of industrial relations, for example, may be resisted because of its implications for corporate governance or the training regime. Second, institutional complementarities lead to the prediction that clusters of political economies share bundles of interdependent institutions. Therefore distinct types of political economy ought to be identifiable based upon their institutional configuration.

Indeed, a crucial part of the theoretical framework of *Varieties of Capitalism* is the specification of two ideal-types, liberal market economies and coordinated market economies, each with a distinctive set of institutions that solves the coordination problems of firms in quite different ways. Liberal market economies, epitomized by the United States, rely upon hierarchies within firms and competitive markets. Economic actors have only arms-length relationships with each other, mediated by markets, and coordination takes place in response to price signals. One would anticipate competitive labor markets, with a high degree of managerial prerogative and limited collective bargaining, and capital markets that emphasize maximizing share price in the short term. Coordinated market economies, in contrast, epitomized by Germany, rely on nonmarket forms of coordination including negotiation, bargaining, and collaboration. One would anticipate bargaining relationships between unions and employers that encourage industrial citizenship and a sharing of power in the firm, relatively rigid internal labor markets, heavy investment in skill formation, a high degree of coordination among employers, interfirm networks, long-term, bank-based finance, and a system of corporate governance that encourages "patient capital." In both models, the different institutional elements are tightly linked and reinforce each other.

The liberal market economy model is much less well developed than the coordinated market economy model. There is a danger, as Thelen puts, that liberal market economies become a "residual category...mostly characterized in negative terms, that is, in terms of what they lack...rather than analyzed in terms of the alternative logic that animates them."[13] Hall and Soskice also note that within the OECD several countries, including France, Italy, and Spain, do not fit into either of the two ideal-types. They suggest there may be a "Mediterranean" type, but the discussion of alternatives to liberal market economies and coordinated market economies is perfunctory, and the emphasis upon institutional complementarities makes it unclear how effectively, for example, a coordinated system of corporate finance would function with a competitive labor market.

There Is an Alternative

The approach developed in *Varieties of Capitalism* provides the intellectual justification for a critique of the idea that there is no alternative and for predictions of one-model-fits-all neoliberal orthodoxy.[14] Countries have different sets of institutions to manage such coordination problems as accessing capital, motivating employees, ensuring appropriate skill levels, and bargaining over wages. No one set has obvious advantages that are consistent over time and across all productive activities. The data presented on economic performance do not show one cluster of countries, the liberal market economies for example, as consistently outperforming another. Rather, each interlocking institutional set does different things with different degrees of success. Coordinated market economies appear to be particularly successful in generating high skill, high wage, high productivity employment because of their combination of patient capital and skilled labor with citizenship rights in the firm. They are likely to provide a better home for high quality production. Liberal market economies, in the absence of painstakingly negotiated coordinating institutions, are able to make more rapid adjustments in capital and labor markets. Different firms and industries will be attracted to each of these sets of institutions. Indeed, a fascinating table of patent specialization by technology class shows that Germany and the United States specialize in technologies that are mirror images of each other (Hall and Soskice, eds., pp. 42–43).

Hall and Soskice propose that the concept of comparative institutional advantage replace the traditional cornerstone of neoclassical free trade theory, comparative economic advantage. The theory of comparative advantage, as the authors point out, has been challenged by capital mobility and intraindustry trade. Comparative institutional advantage points to the advantage countries have in particular sectors by virtue of their institutional configuration and the likelihood that capital will consider the advantages and disadvantages of institutions alongside simple factor endowments. Lehrer's chapter on the strategic management of European airlines demonstrates how national airlines responded in different ways to the onset of price competition as a result of locational institutional resources.[15] Similarly, firms may engage in "institutional arbitrage," spinning off the different parts of their activities to the countries whose institutional set is most appropriate (Hall and Soskice, eds., p. 57). This approach can also explain state responses to trading regimes. Thus, the chapter by Fioretos uses the varieties of capitalism framework to explain the negotiating position of Germany and Britain during the Maastricht negotiations.[16] Overall, then, the central significance of this approach is that it offers a comprehensive framework to explain comparative economic performance (and its social consequences) that challenges the dominant assumptions of neoclassical economics and rejects simple calls for ever greater deregulation and reliance upon unconstrained markets.

It follows that *Varieties of Capitalism* also has something distinctive to say about the likelihood of a convergence among capitalist societies in response to the multiple associated changes that are subsumed under the label of globalization. The varieties of capitalism approach is skeptical of convergence. The interlocking, interdependent nature of the institutional sets that it describes makes it likely that they will be resistant to change. Furthermore, since there is no single best set of institutions, states and private economic actors should not be expected to seek radical restructuring of their economies. Rather, "nations often prosper, not by becoming more similar, but by building on their institutional differences....Thus, much of the adjustment process will be oriented to the institutional recreation of comparative advantage" (Hall and Soskice, eds., pp. 60, 63). If anything, institutional arbitrage is likely to consolidate difference rather than erode it. Thus, there is the expectation of a high degree of conformity to type and of incremental change within a model or set of coordinating mechanisms, rather than radical change or a jump to a different model.

While not discussed by Hall and Soskice, others working within the loose framework of the varieties of capitalism approach have suggested that, under pressure of capital mobility and the shift to postindustrial employment, what can be described as dual convergence has occurred. Convergence takes place within clusters but not between them. Countries within each cluster become more alike but the central divide between liberal market economies and coordinated market economies remains and indeed becomes more stark.[17] Thus, with the breakdown of peak-level bargaining in Sweden, there is evidence that it is converging on the German model, while among liberal market economies greater liberalization is leading to convergence with the (pre-Enron) United States. Here, too, the limitations of a dichotomous model manifest themselves. After all, if France and Italy are neither liberal nor coordinated market economies in the first place, is there any reason to expect them to converge on one of these two models?

There are reasons to question whether Hall and Soskice are right about convergence. Some are signaled by the contributors themselves. The impact of interdependent institutions can run both ways, after all. Perturbations in one sphere have the effect of undermining institutional arrangements in another. Hall and Soskice acknowledge that international capital mobility and accelerating mergers and acquisitions may undermine the monitoring mechanisms of corporate governance and conditions for patient capital in coordinated market economies. Given the close interconnection between corporate governance and industrial relations that Vitols and others demonstrate in this book, it is hard to see how they will not lead employers to reassess traditional citizenship rights in the firm. Because it is extremely difficult to construct negotiated forms of nonmarket coordination (the book edited by Streeck and Yamamura shows how painful and historically contingent this process can be), coordinated market economies may be subject to a degree of liberalization, while liberal market economies are not subject to the opposite tendency. Thus, there is, over time, a tendency for all capitalist economies to move towards more liberalization, not more coordination.

It should also be said that the coordinated market economy model is heavily dependent upon the experience of Germany. The great majority of chapters in this book and others using the varieties of capitalism framework use Germany as the prime example of a coordinated market economy. Germany is, however, "a moving target," and there is substantial evidence of a weakening of the coordinating institutions in both industrial relations and capital markets.[18] It is thus questionable to what extent Germany can remain the poster child for an alternative to deregulated liberal market economies.

Bringing the State Back In—Again?

There is another, more fundamental, reason for taking convergence seriously. *Varieties of Capitalism* anticipates that the economic implications of comparative institutional advantage will sustain continued divergence. However, if institutional arrangements have political preconditions, the prospects for divergence are more bleak. This argument is forcefully articulated by Streeck, which is worth quoting at length.

> ...the sort of *state capacity* that was historically required for the defense of nonliberal capitalism against regime incoherence and liberal erosion may no longer be in supply, for both domestic and international reasons....Today's second Great Transformation of the state, which in important respects appears to be a direct reversal of Polanyi's, would seem to amount not just to another wave of economic liberalization, but to a perhaps permanent dismantling of collective capacity to resist liberalization or bind it into and reconcile it with a nonliberal institutional context.[19]

Streeck's observation encourages evaluation of the role the state and political conflict more generally play in the theoretical framework of varieties of capitalism. The firm-centered political economy of the varieties of capitalism approach identifies a secondary role for states and is critical of earlier theoretical approaches that assigned a central role to state action. It identifies the "principal problem facing policymakers...[as] one of inducing economic actors to cooperate more effectively with each other" through the construction of institutions that encourage "better forms of coordination among private-sector actors" (Hall and Soskice, eds., p. 45). States clearly matter because their rule-making and coercive powers serve to reinforce coordination, which is one reason why *Varieties of Capitalism* (and indeed the other two books under review) take the nation-state seriously as a locus of economic regulation and reject a shift in focus to either subnational or supranational levels. Thus, states do not impose policies but rather induce private actors to act in their own interests by better coordinating their activities. In this task, those capacities usually associated with "strong" states are not necessarily the most valuable. A traditional strong state, Thatcherite Britain, for example, might be able to facilitate rapid liberalization but not induce cooperation; states that share power with private actors are more likely to succeed.

Several of the contributors to this book point to the tendency within the varieties of capitalism approach to "underplay the importance of the *political* dimensions of political economies" and emphasize the need to take politics and policymaking more seriously.[20] The theoretical framework of *Varieties of Capitalism* offers an extremely thin notion of politics and state action, in which governments, whose function is essentially to encourage coordination among economic actors, act largely at the behest of employers. States do not appear to have interests distinguishable from those of employers, nor do they have the capacity to act independently of, still less against, employer interests. Managing the political economy is a fundamentally cooperative venture: coordinating activities, facilitating information flows, and encouraging cooperation. This approach betrays a latent functionalism in which capitalist political economies and the social relations that undergird them are fundamentally nonconflictual; the interests of different actors can be effectively coordinated for long periods by sets of institutions. These institutions have a tendency to reinforce and reproduce themselves over time, each producing its own "equilibrium policy outcome" (Hall and Soskice, eds., p. 258). As the other two books under review demonstrate, this image is difficult to square with the reality of capitalist economic development.

Given these constraints, it is hard to avoid the conclusion that not only are efforts by governments to change the direction of a political economy doomed to failure, but also that the framework of *Varieties of Capitalism* provides a *post hoc* justification of the radical neoliberal restructuring in Britain and the United States after 1980.[21] The contribution by Wood, which seeks to explain differences in national policy patterns, is the most "political" contribution, but it reveals the limitations of the conception of politics in *Varieties of Capitalism*. For Wood, it is not political conflict, or partisan or ideological difference over policy, that is important, but rather the congruence between policy patterns and the underlying institutional context and the capacity of states to deliver the policies that underpin coordination among private actors. Varying business-government relationships across varieties of capitalism condition the policy regimes of governments. Employer preferences determine the content of policy (again, states have little or no autonomy), but the nature of the business-government relationship and the structure of the political system (its centralization and capacity for sharing power) contribute to the stability and effectiveness of coordination. In Wood's case study, coordinated business organization and a political system that dispersed power and required coalition government thwarted substantial liberalization of the labor market in Germany, while uncoordinated business organization and a concentrated and centralized political system permitted radical liberalization in Britain.

Culpepper's contribution to *Varieties of Capitalism* explicitly addresses the difficulty facing policymakers who seek to create coordinating institutions where none existed before. His case studies focus upon vocational education and training in Germany and France. While more optimistic about the possibilities of creating coordinating institutions, Culpepper ultimately finds very little room for purposeful state action and endorses Wood's conclusion that strong employer associations are a precondition of success.

The close correspondence between a policy regime and the underlying institutional configuration of the political economy really only permits policies that accentuate the dominant form of coordination. However unpalatable that vision of politics may be, there is substantial evidence to support it. There is little discussion of "third ways"—center-left, post-social-democratic governments—in *Varieties of Capitalism*, but it is striking that those elements of a third way that implied some convergence on the German model (stakeholding and reform of corporate governance) were quickly jettisoned by Blair's government in Britain, while those that implied convergence with the United States (workfare, individual rather than collective rights at work) were implemented. A case can be made that important aspects of the third way should be considered policy adaptations specific to center-left governments in weakly coordinated liberal market economies.[22]

What about the Workers?

The absence of any real place for conflict or the exercise of power in the framework of *Varieties of Capitalism* is remarkable. It explains the near invisibility of labor within the book and the theoretical framework. It is surely no coincidence that the one contribution whose central theme is labor politics, Thelen's, is also the one that is most dubious about the absence of attention to the political dynamics underlying institutional construction and maintenance. Labor is very much a minor actor in *Varieties of Capitalism*. Its relative invisibility is both a reaction to its current weakened state at the dawn of the twenty-first century and the product of a reinterpretation of the relative roles of unions and employers in the process of institutional construction in earlier periods.[23] Not only is Thelen's the only chapter to focus upon labor or industrial relations, but several of the contributors contest "labor-centered analyses" of welfare institutions, rejecting the conventional view that labor mobilization helps explain the construction of social protection regimes and that welfare states contribute to the decommodification of labor (Hall and Soskice, eds., p. 184). Rather, the chapters by Mares and Estevez-Abe, Iversen, and Soskice emphasize the functionality of welfare institutions for employers, particularly in contributing to skill formation.

Trade unions often appear to exist only in order to solve collective action problems for employers and have little independent existence or history. Yet class contestation over the central institutions of capitalist political economies has been a persistent feature of the postwar period, expressed both in synchronous strike waves, particularly immediately after World War II and again between 1967 and 1979, and major debates within most advanced capitalist societies over the direction of economic and social development in which the labor movement played a central part. One of the many virtues of *Models of Capitalism* is its recovery of many of these important debates: *autogestion* in France, the extension of codetermination in Germany, wage earner funds in Sweden, industrial democracy and the alternative economic strategy in Britain, and industrial policy in the United States. The danger of the perspective of *Varieties of Capitalism* is that it flattens history, explaining the failure of these more radical political economic projects as overdetermined, a restoration of equilibrium rather than a result of political conflict and the exercise of power in a contingent historical process. It is not clear what is gained by redefining the ubiquitous workplace conflict between employers and workers as a coordination problem. What is lost is the sense that power is exercised by actors with different interests and unequal resources and capacities. In working within the framework of a smoothly functioning, self-adjusting political economy, the approach of *Varieties of Capitalism* finds it difficult to describe, still less explain, the moments of crisis and conflict that are a central part of comparative political economy.

Nonliberal Capitalism

The Origins of Nonliberal Capitalism grew out of a conference held in the mid 1990s that explored the similarities between the German and Japanese political economies and the difference between them and the "standard capitalism" of the United States. In the context of a weakening of those economies and the apparent strength of the more deregulated liberal market economies, it also examined the degree to which convergence on the deregulated market model might be necessary. *The Origins of Nonliberal Capitalism* is one of two volumes projected to emerge from this collective research. It investigates how and why the institutions of nonliberal capitalism were created and then maintained from the mid nineteenth century through the 1950s. A second volume, focusing upon the contemporary period, will explore the issue of convergence and the particular challenges facing the German and Japanese economies in the current period.

The Origins of Nonliberal Capitalism has a quite different theoretical thrust than *Varieties of Capitalism*. Its historical approach reintroduces politics into an overly functionalist account of political economy by identifying founding moments and lost alternatives and by exploring the political settlements and shifting coalitional bases that permit institutions to thrive. It presents a dynamic view of changing political economies, in contrast to the contributions to *Varieties of Capitalism*, which often appear more as snapshots that capture the organizing logic of contemporary political economies at a particular moment in time. The historical approach is also useful to the extent that it shows how states and private actors responded to earlier challenges of liberalization, in the mid nineteenth century and again after World War II, and so contains lessons for the prospects of resisting the current bout of liberalization.

In some ways, the approach taken in *The Origins of Nonliberal Capitalism* overlaps and is consistent with that of *Varieties of Capitalism*, reinforcing and adding impressive historical detail to the account of comparative institutional development articulated by Hall and Soskice. Many of the insights derived from the framework in *Varieties of Capitalism* also find confirmation here, and two scholars, Thelen and Vitols, contributed to both books. Thus, while Streeck, in his wide-ranging and carefully argued introductory chapter, prefers the negative appellation "nonliberal capitalism" to the more familiar terms used to describe Germany and Japan, arguing that all market economies, even the most liberal, are subject to some degree of coordination, embedding, or institutionalization, he nonetheless accepts the broad dichotomy between two types of political economy. While an earlier generation of scholars envisaged something closer to a tripartite typology of market, coordinated, and statist political economies, with France and Japan as prime exhibits of the third type, Streeck and Yamamura join Hall and Soskice in discarding the statist ideal-type and integrating Japan into the coordinated/nonliberal category. Gone are the breathless accounts of industrial planning and the state as gatekeeper between the domestic and international economies. Instead, industrial relations, interfirm networks, and the role of banks are said to characterize Japanese political economy and mark it out for inclusion in the coordinated/nonliberal camp.

All the contributors note important differences between the Japanese and German political economies: enterprise community versus sectoral corporatism; segmentalism and dualism versus solidarism; flexible mass production versus diversified quality production. In addition, a much greater emphasis upon the juridification of institutional arrangements characterizes Germany, while labor exclusion is a hallmark of Japanese political economy. Nevertheless, the similarities overwhelm the differences. In both cases:

> Social constraints and opportunities...typically enforced by social institutions, define the legitimate place and the possible range of market transactions and markets in the economy-*cum*-society in which they take place. By circumscribing and thereby limiting the role of markets, they typically "distort" them, for example by shielding desirable social conditions from market fluctuations. (Streeck and Yamamura, eds., p. 2)

Furthermore, as Lehmbruch's contribution demonstrates, there have been deliberate emulation and institutional borrowing between the two countries at critical moments of institutional construction in the nineteenth century and between the two world wars.

It follows from the definition of nonliberal capitalism that this book shares with *Varieties of Capitalism* an emphasis on the role of institutions in organizing, constraining, and coordinating economic relationships. It also recognizes the centrality of institutional interaction and linkage. Thus, Vitols's contribution explores the connections among industrial relations, social protection, and financial systems; it argues that there was a close relationship between solidaristic labor regimes and bank-based finance in Germany and Japan.[24] The emphasis upon institutional interaction also leads several contributors to argue that welfare systems played a central role in the overall configuration of the political economy. Manow, in particular, echoes the rejection by Mares in *Varieties of Capitalism* of the "labor mobilization" thesis, in which labor movement strength is said to explain welfare state development; reversing that causal arrow, Manow explains developments in the sphere of industrial relations as a product of social policy.[25] The functionality of welfare institutions for economic development, rather than their conflict or incompatibility with economic growth, is emphasized. As in *Varieties of Capitalism*, the internal coherence of the institutional configuration of nonliberal capitalism is repeatedly implied.

The final important area of overlap with *Varieties of Capitalism* is the relative irrelevance of labor as an actor. As noted above, Manow argues that labor gains are a by-product of social policy and broader policies of incorporation. Indeed, he argues that the introduction of the principle of *Parität* for the management of social insurance served to reduce employers' resistance to its later incorporation into collective bargaining. Organized labor was simply too weak and too easily repressed in Germany and Japan in the second half of the nineteenth century and again between the two world wars to play a significant role in institutional construction. Insofar as the contributors argue that institutions created in the mid nineteenth century persisted with little change well into the post-World War II period, it is no surprise that they see labor as a bit player. Thelen and Kume, in an article on nonliberal training regimes, focus more upon the labor market, and union structure is important because in neither Japan nor Germany did craft unions emerge and seek to control skills and contest skill formation across class boundaries.[26] Rather, unions emerged later and largely collaborated with employers in the construction of training regimes. Class conflict appears muted in *The Origins of Nonliberal Capitalism* and is displaced by mutual interest and accommodation across class lines.

States, Historical Moments, and Legitimacy

Nonetheless, for all the similarities in approach, *The Origins of Nonliberal Capitalism* has a quite different theoretical thrust than *Varieties of Capitalism* by virtue of the centrality of state action, political conflict, and historical contingency in institutional construction, maintenance, and change. System coherence and integration had to be continuously defined, established, and restored, and institutions emerged from experimentation, improvisation, coevolution, elective affinities, and unintended consequences. As Streeck argues, "according to this model, evolution is in part 'path dependent,' in part affected by unique exogenous shocks, and in any case replete with accumulating internal inconsistences that make for a permanent need for reorganization and reconstruction" (Streeck and Yamamura, eds., p. 8). Jackson's contribution epitomizes this approach.[27] In his account of the parallel emergence of corporate governance and institutions of industrial citizenship, contingent timing, unintended consequences, and the plasticity of institutions jostle for attention, each contributing to coevolution at key junctures when liberal alternatives were suppressed and nonliberal institutions became embedded. There is, in short, an oddly refreshing causal messiness underlying the contributions to this book that contrasts with the more orderly presentation of *Varieties of Capitalism*.

War, dictatorship, and coercion were the midwives of nonliberal capitalism, so the state was bound to have been a central actor in its construction. In the context of belated industrialization and delayed nation-building, predemocratic state elites had room for "political-economic maneuvering" (Streeck and Yamamura, eds., p. 34). In Germany and Japan, economic logic was subordinated to political goals, as states sought to constrain rather than liberate markets in order to achieve economic growth without political liberalism. Economic stability and the incorporation of key groups drove the construction of institutions. Thus, each contributor demonstrates the importance of state action at key junctures. Vitols questions the traditional view that banks played a central role in German and Japanese industrialization, instead emphasizing the regulatory role of the state in encouraging bank-based finance. For Manow, in contrast to the sharp distinction between public and private welfare provision typical of the United States and Britain, nonliberal capitalism is distinguished by a blurring of the public and private; states regulate and subsidize private welfare provision. And for Thelen and Kume, state treatment of the artisan sector—protecting and regulating it in Germany, permitting its eclipse by large, modern firms in Japan—plays a large part in explaining the different training regimes that emerged. In these accounts, alliances between state elites and class and nonclass actors permit the construction of institutions, and states continuously have to recreate coalitions supporting these institutions. Thus, in *The Origins of Nonliberal Capitalism*, the causal arrows run not from a production regime to a set of supporting institutions, but in the opposite direction; the "historical causal sequence...extends from state-building through social policy and labor relations to the organization of production" (Streeck and Yamamura, eds., p. 14).

It is unclear whether the centrality of the firm in *Varieties of Capitalism* is a theoretical statement (firms should be at the center of any analysis of political economy) or a historical one (at this point in the development of capitalism, firms are the central actors), the latter leaving open the possibility that a state or labor-centered political economy might have been more appropriate at some point in the past and perhaps will be again in the future. On the evidence provided by the contributors to *The Origins of Nonliberal Capitalism*, the centrality of the firm in *Varieties of Capitalism* may be more usefully understood as a historically specific reflection of contemporary economic conditions than as a more general theoretical statement.

There is disagreement among the contributors to *The Origins of Nonliberal Capitalism* over the critical historical moments at which political action by states made possible the institutionalization of nonliberal capitalism. Streeck emphasizes the late nineteenth century, the first point at which liberalization is rejected, and the period immediately after World War II, when markets, independent unions, and political democracy were grafted onto conservative institutions to create a successful hybrid form of capitalism, despite having initially been imposed from without by military occupation. Several other contributors, including Lehmbruch, Vitols, and Jackson, while agreeing on the earlier juncture, point to the 1920s and 1930s as the key period when further liberalization was rejected and nonliberal capitalism became embedded.[28] For these contributors, the institutions constructed in the late nineteenth century and reinforced in the interwar period underwent only marginal change after 1945.

The chapter by Lehmbruch adds an important discursive element to an understanding of institutional construction and maintenance, one that muddies the causal waters and further distances his account from a firm-centered one. In the course of exploring the interchange of ideas and institutions between Germany and Japan, Lehmbruch argues that the process of embedding institutions requires a shared cognitive framework. This "hegemonic discourse" selects certain institutions as more cognitively conceivable and feasible, imbuing them with greater legitimacy than others. There is, therefore, a certain fit between a given hegemonic discourse and a set of political-economic institutions. A discourse of social integration emerged in the 1870s in Germany as a coalition of conservatives, Catholics, and protectionists rejected economic liberalization. It was selectively emulated in Japan (where vertical integration was emphasized in place of horizontal integration in Germany), and in both countries it legitimized a set of nonliberal, market-constraining institutions. A similar argument is suggested by Hall and Soskice (though not developed in any of the contributions in their book); they argue that shared understandings and "common knowledge" are a component of institutions, such that, to "remain viable, the shared understandings associated with [institutions] must be reaffirmed periodically by appropriate historical experience" (Hall and Soskice, eds., pp. 13, 14). The way actors think about political-economic arrangements and the range of choices available to them become important parts of institutional selection, embedding, and path dependence.

The Origins of Nonliberal Capitalism is bound to have little to say about the prospect of convergence among political economies at the beginning of the twenty-first century. But the historical trajectory of Streeck's introductory chapter, with its emphasis upon the political preconditions of institutional development, does provide grounds for pessimism about the continued viability of national models of nonliberal capitalism. He points out that nonliberal capitalism in Germany and Japan has in fact become increasingly liberal in the course of the twentieth century, subject to "creeping liberalization" (Streeck and Yamamura, eds., p. 36). At the same time, the capacity of states to resist the erosion of nonliberal institutions, always crucial to their success, has been reduced. Lehmbruch adds that convergence would require a breakdown in the hegemonic discourse that underpinned the German and Japanese models. It is debatable to what degree that discourse has so far broken down, but ideas about political-economic institutions, which now flow across national borders as freely as capital, will play as large a part as the coordinating functions of the institutions themselves in determining the persistence of distinct national models of capitalism.[29]

Bringing Class and Capitalism Back In

The central issue addressed by *Models of Capitalism* is the conditions under which economic performance is maximized. Is growth best left to the market—is there one "right way" (Coates, p. 1)—or does a range of viable models of capitalism exist? Woven throughout the book, and differing from the other books under review, is an argument, rooted in the Marxist tradition of political economy, that emphasizes the uneven development of capitalism across the advanced capitalist world and the conflictual class arrangements underlying the institutional configuration of capitalist economies.

The main distinction between the theoretical framework employed here and that of the other two books (for all their differences) is between an analysis of varieties of institutional arrangements and an analysis of varieties of class relationships. Coates brings the notion of power back to the center of analysis, where power is understood as the preserve not only of states, but of classes as well. Thus, class conflict and the manner in which institutions are both a response to and a product of it play a central part in Coates's explanatory framework and narrative of postwar capitalist development. Understanding political-economic institutions as mechanisms for "powering" as well as coordinating and deliberating is a useful corrective to the form of institutional analysis employed in *Varieties of Capitalism*.[30]

Models of Capitalism is organized around an evaluation of the main theoretical arguments adduced to explain which models of capitalism are most successful at producing economic growth and at what social cost. Coates provides a meticulous and exhaustive evaluation of the evidence on the relationship between economic performance and forms of labor organization, the mobilization and deployment of capital, an array of micro and macroeconomic policies, particularly skill formation, and even the economic impact of cultural norms. In several places he uses paired comparisons of two countries to examine the merits of a particular argument, for example, comparing the impact of labor organization on Swedish and British economic performance. The task, for Coates, is to explain not only the success of a particular national model of capitalism, but also the reasons why that same model could be associated with impressive growth in one period but more lackluster performance in another. The decline or retreat of the British and U.S. economies in the three decades after 1950, not just their rebound in the 1990s, needs to be explained. German and Japanese economic performance presents a mirror image to that of Britain and the U.S. In short, Coates examines the interaction between national sets of institutional arrangements and the uneven development of capitalist economies.

Putting the Politics Back into Political Economy

Models of Capitalism makes three contributions to debates over national varieties of capitalism. First, it offers a much more thorough examination of liberal market economies. *Varieties of Capitalism* has relatively little to say about liberal market economies, concentrating its attention upon coordinated market economies, and *The*

Origins of Nonliberal Capitalism concerns only Germany and Japan. As noted above, there is a tendency in studies of varieties of capitalism for liberal market economies to appear as one-dimensional caricatures, refugees from an introductory economic textbook defined by their divergence from the coordinated market economy model rather than in their own terms. Throughout *Models of Capitalism*, by contrast, liberal market economies receive equal billing. An early chapter is devoted to examining arguments about the sources of British and U.S. decline after 1950, and Britain is used in several of the paired comparisons.

The British case is pivotal for the debate about varieties of capitalism for a number of reasons. Contestation, class conflict, and radical restructuring of political-economic institutions characterize British postwar experience and indeed appear to be more characteristic of liberal market economies in general than their more coordinated counterparts. They may be reasons why studies that focus upon coordinated market economies place greater weight upon mutual accommodation, cross-class alliances, and incremental, path-dependent change. In contrast to the argument in *Varieties of Capitalism* that firms either adapt their business strategies to the institutional arrangements they face or exit by moving to a country with a better institutional fit for their type of economic activity, evidence from the 1970s and 1980s shows that British firms sought aggressively to change the institutions they faced, particularly in the sphere of industrial relations.

The experience of Britain also raises the question of whether alternative paths of institutional development existed. It is not obvious that Britain qualified as a liberal market economy prior to 1980. It certainly lacked employer and bank coordination, but it had extensive collective bargaining (primarily at the industry level until the 1960s) and a universal welfare state, and it is certainly arguable that it was moving along a path toward a more coordinated, even planned, economy in the 1970s.[31] Coates's account makes clear that the failure of Britain to develop along a non-liberal market economy path from the late 1970s onwards was the product of conflict and the systematic dismantling of collective forms of coordination, rather than an essentially preordained reversion to type. Thus, the purposeful strategic actions of employers and the Thatcherite state substantially transformed the traditional mixed political economy of Britain in the direction of a liberal market economy. The British case, in short, presents an image of institutional development at odds with the one that dominates the varieties of capitalism approach.

The second contribution of *Models of Capitalism* is its emphasis on the importance of the class context within which institutions operate. Discussing the role of the financial sector in Britain and Germany, Coates points to the quite different "class character" of capital in the two countries by virtue of their different historical development.

> The gap between finance and industry in the UK was not simply a gap between institutions. It was a gap between fractions of a common class, whose location in the emerging world capitalist system

> after 1870 gave its financial strata both a set of international orientations and the market power to superimpose them on local industrial capital. That was not true in the German case....What we are dealing with in the German case is not simply a superior set of institutional practices: we are dealing with a stronger industrial bourgeoisie. (Coates, p. 177)

Coates repeatedly points to the manner in which the web of class relationships, compromises, and struggles (both between and within classes) structures the kinds of political settlements and the range of viable institutional arrangements that are possible. In a sense, this point is obvious. But unless the obvious is stated, it becomes more plausible to ascribe to institutions what are in fact the attributes of social relationships and slowly to replace the "powering" function of institutions with coordination. Coates reminds the reader that institutions are a congealed form of social power, reflecting a particular moment or balance of power at the time of their construction.

This argument also helps to explain why Coates shares much of Streeck's pessimism about the prospects for the maintenance of distinct models of capitalism. In his words,

> *continuity of institutions* is less important than *discontinuity of outcomes*....The architecture of institutional arrangements may not be changing, but what that architecture delivers (especially for workers) definitely is...though the form of the models may stay, the substantive differences they once represented for the rights and rewards of workers are beginning to evaporate. (Coates, p. 260)

Focusing attention on the persistence of institutional arrangements may miss the breakdown of the social and political settlements underlying them and the consequent transformation in the substantive effects of those institutions. For example, many scholars have pointed to the resurgence in recent years of national-level corporatist agreements between labor movements and states.[32] Yet the similarity in institutional form masks the fundamentally different purpose of these more recent agreements, which is for the most part the political legitimation of labor market deregulation and the dismantling of social welfare regimes.

The third corrective to institutional analysis that Coates provides is to focus attention upon the temporal dimension of capitalist development. As noted above, one theoretical strand of political economy in the 1980s and 1990s, that loosely associated with French regulation theory, linked a recognition that institutions regulate economic growth—something shared with most institutionalist studies—with an emphasis upon the (often uneven) development over time of capitalist economies, the periodic shifts in the underlying pattern and form of economic growth, and the manner in which these changes in the growth regime themselves challenge the institutional configuration of a given political economy. This temporal dimension calls into question the viability of a particular model of capitalism. As Coates puts it, "in the end the problem seems to lie not with modelling but with capitalism. It is not that particular models of capitalism fail to function in a satisfactory manner...rather that capitalism itself, whatever its form, is capable of functioning only with sporadic effectiveness and always at considerable social cost" (Coates, p. 233). A model of capitalism can fail to function effectively not just because of an exogenous shock but also because of an accumulation of internal contradictions. Changes over time in the effectiveness of different sets of political-economic arrangements are themselves products of changes in the underlying nature of capitalist economic growth. Models based upon a major industrial policy role for the state eroded as the space for autonomous state action shrank, while corporatist models fell victim to the mobility of capital and the weakening of national labor movements. Thus, charting the rise and fall of each model of capitalism requires recognizing the manner in which capitalism periodically transforms itself.

Conclusion

Varieties of Capitalism is the state of the art of institutional analysis. Its theoretical framework provides a compelling explanation of why the world still has distinct national varieties of capitalism (even if the range of varieties has shrunk) and of how institutions intersect to reinforce these varieties. It establishes a space for rigorous institutional analysis—going well beyond the usual assertion that institutions matter to show precisely when, why, and how they matter—which in turns permits the identification of the different institutional logics of capitalist growth. It thus provides a potent intellectual weapon against neoliberal orthodoxy and demonstrates the value of the social sciences' communicating across their self-imposed disciplinary boundaries. The importance of this contribution in understanding the implications of institutional structure for economic performance can not be overstated.

There is nonetheless an incomplete quality to the theoretical framework of *Varieties of Capitalism*. Its analysis privileges regime stability over crisis, institutional continuity over discontinuity, internal coherence and equilibrium over internal contradiction and crisis, coordination and mutual accommodation over conflict and contention, policy over politics, and business over the state and labor. It is a political economy better suited to explaining the mid 1990s than the mid 1970s and the evolution of coordinated market economies than liberal market economies. One path of theoretical development is to build upon this approach, to incorporate the historical and fundamentally political origins of national institutional arrangements. This path is the great strength of *The Origins of Nonliberal Capitalism*. It emphasizes contingency, political contestation, and the central role of the state at key historical moments of institutional construction and embedding.

There is also virtue, as Coates suggests, in going beyond institutional analysis, both of Hall and Soskice and of Streeck and Yamamura, to analyze capitalism itself.

The approach of *Varieties of Capitalism* is middle-level theorizing at its best, but, in the absence of an articulation with theorizing about the uneven and interdependent development of national capitalisms and the contradictory elements, crisis tendencies, and propensity for perpetual reinvention within capitalist economies, the danger for institutionalist analysis is always that it will become too static, able to explain stability but not rupture, and will render invisible the exercise of class power that underlies coordination and equilibrium in the political economy.

Iversen and Pontusson have warned against a "version of revisionism" in which "issues of power and distribution fade into the background and comparative political economy comes to revolve entirely around coordination."[33] Recognizing that the economy in which transactions are being coordinated is capitalist and that the economic actors whose actions are being coordinated are class actors goes a long way in restoring dynamism, conflict, and power to the center of comparative political economy. What is required, in other words, is not simply institutional theory, but an institutional theory of capitalism. The intellectual promise of the varieties of capitalism approach opens up exciting new research agendas. The next step is to place its distinctive institutional analysis within a wider theoretical framework that incorporates historical trajectories, class relationships, and the development of capitalism as a global system.

NOTES

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1. The other two are Torben Iversen, Jonas Pontusson, and David Soskice, eds., *Unions, Employers, and Central Banks: Macroeconomic Coordination and Institutional Change in Social Market Economies* (New York: Cambridge University Press, 2000); and Herbert Kitschelt, Peter Lange, Gary Marks, and John D. Stephens, eds., *Continuity and Change in Contemporary Capitalism* (New York: Cambridge University Press, 1999).

2. Prominent examples include Peter Hall, *Governing the Economy* (New York: Oxford University Press, 1986); and Sven Steinmo, Kathleen Thelen, and Frank Longstreth, eds., *Structuring Politics: Historical Institutionalism in Comparative Analysis* (New York: Cambridge University Press, 1992).

3. Paul Pierson, "Increasing Returns, Path Dependence, and the Study of Politics," *American Political Science Review*, 94 (June 2000).

4. Kathleen Thelen, "The Political Economy of Business and Labor in Developed Democracies: Agency and Structure in Historical-Institutional Perspective," in Ira Katznelson and Helen Milner, eds., *Political Science: The State of the Discipline* (New York: Norton, 2002).

5. Peter Swenson, "Bringing Capital Back In, or Social Democracy Reconsidered: Employer Power, Cross-Class Alliances, and Centralization of Industrial Relations in Denmark and Sweden," *World Politics*, 43 (1991).

6. David Soskice, "Wage Determination: The Changing Role of Institutions in Advanced Industrialized Countries," *Oxford Review of Economic Policy*, 6 (1990).

7. Michael J. Piore and Charles F. Sabel, *The Second Industrial Divide: Possibilities for Prosperity* (New York: Basic Books, 1984); Wolfgang Streeck, *Social Institutions and Economic Performance* (London: Sage, 1992); Gary Herrigel, *Industrial Constructions: The Sources of German Industrial Power* (New York: Cambridge University Press, 1996).

8. A small sample should include Michel Albert, *Capitalisme contre capitalisme* (Paris: Editions du Seuil, 1991); J. Rogers Hollingsworth and Robert Boyer, eds., *Contemporary Capitalism: The Embeddedness of Institutions* (New York: Cambridge University Press, 1997); and Colin Crouch and Wolfgang Streeck, eds., *Political Economy of Modern Capitalism* (London: Sage, 1997).

9. The most important of these currents is the French regulation school. See Robert Boyer and Yves Saillard, eds., *Regulation Theory: The State of the Art* (New York: Routledge, 2002).

10. Pepper D. Culpepper, "Employers, Public Policy, and the Politics of Decentralized Cooperation in Germany and France," in Peter Hall and David Soskice, eds., *Varieties of Capitalism: The Institutional Foundations of Comparative Advantage* (Oxford: Oxford University Press, 2001).

11. Isabela Mares, "Firms and the Welfare State: When, Why, and How Does Social Policy Matter to Employers?," in Hall and Soskice, eds.

12. Margarita Estevez-Abe, Torben Iversen, and David Soskice, "Social Protection and the Formation of Skills: A Reinterpretation of the Welfare State," in Hall and Soskice, eds.

13. Kathleen Thelen, "Varieties of Labor Politics in the Developed Democracies," in Hall and Soskice, eds., p. 73.

14. Paradoxically, because the framework implies that it is extremely difficult for a country to shift from one set of institutional arrangements to another, an alternative exists only if one is prepared to move to a different country.

15. Mark Lehrer, "Macro-Varieties of Capitalism and Micro-Varieties of Strategic Management in European Airlines," in Hall and Soskice, eds.

16. Orfeo Fioretos, "The Domestic Sources of Multilateral Preferences: Varieties of Capitalism in the European Community," in Hall and Soskice, eds.

17. See Torben Iversen and Jonas Pontusson, "Comparative Political Economy: A Northern European Perspective," in Iversen, Pontusson, and Soskice, eds.; also, Thelen, "Varieties of Labor Politics," p. 72.

18. Mark Blyth, roundtable on Contemporary Political Economy: Varieties of Capitalism and Beyond, Thirteenth International Conference of Europeanists, Chicago, March 14–16, 2002; Anke Hassel, "The Erosion of the German System of Industrial Relations," *British Journal of Industrial Relations*, 37 (1999); Richard Deeg, "Path Dependence and National Models of Capitalism: Are Germany and Italy on New Paths?," paper presented at the Annual Meeting of the American Political Science Association, San Francisco, August 30–September 2, 2001.

19. Wolfgang Streeck, "Introduction: Explorations into the Origins of Nonliberal Capitalism in Germany and Japan," in Wolfgang Streeck and Kozo Yamamura, eds., *The Origins of Nonliberal Capitalism: Germany and Japan in Comparison* (Ithaca: Cornell University Press, 2001), pp. 37–38.

20. Hall and Soskice, eds., p. 247. The contributors who most emphasize the political dimension are Thelen, "Varieties of Labor Politics"; Culpepper, "Employers, Public Policy, and the Politics of Decentralized Cooperation"; and Stewart Wood, "Business, Government, and Patterns of Labor Market Policy in Britain and the Federal Republic of Germany," in ibid.

21. I am grateful to David Coates for making this point to me in a personal communication.

22. See Chris Howell, "Is There a Third Way for Industrial Relations?," paper prepared for the Politics of Employment Relations conference, Windsor Great Park, United Kingdom, September 16–17, 2002.

23. Peter Swenson has played a prominent role in this process of reinterpretation. See especially Peter Swenson, *Fair Shares* (Ithaca: Cornell University Press, 1989).

24. Sigurt Vitols, "The Origins of Bank-Based and Market-Based Financial Systems," in Streeck and Yamamura, eds.

25. Philip Manow, "Welfare State Building and Coordinated Capitalism in Japan and Germany," in Streeck and Yamamura, eds.
26. Kathleen Thelen and Ikuo Kume, "The Rise of Nonliberal Training Regimes: Germany and Japan Compared," in Streeck and Yamamura, eds.
27. Gregory Jackson, "The Origins of Nonliberal Corporate Governance in Germany and Japan," in Streeck and Yamamura, eds.
28. Gerhard Lehmbruch, "The Institutional Embedding of Market Economies," in Streeck and Yamamura, eds.
29. On the role of ideas in political economy, see Mark Blyth, *Great Transformations: Economic Ideas and Institutional Change in the Twentieth Century* (New York: Cambridge University Press, 2002).
30. The term is borrowed from Peter Hall, "Policy Paradigms, Social Learning and the State: The Case of Economic Policymaking in Britain," *Comparative Politics*, 25 (April 1993).
31. Hall, *Governing the Economy*, played an important role in the scholarly redefinition of Britain as a liberal market economy.
32. Lucio Baccaro, "What Is Dead and What Is Alive in the Theory of Corporatism?," unpublished draft paper, International Institute for Labour Studies, July 2002.
33. Iversen and Pontusson, "Comparative Political Economy," p. 31.