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From comparing capitalisms to the politics of institutional change

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From comparing capitalisms to the politics of institutional change

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ABSTRACT

The notion of distinct national varieties or systems of capitalism gained considerable currency in the last two decades. This review essay highlights three theoretical premises which define what we call the comparative capitalisms (CC) approach to political economy: First, national economies are characterized by *distinct institutional configurations*; second, these configurations are a source of *comparative institutional advantage*; and third, the configurations are stabilized by institutional *path dependence*. Within these common premises, the CC literature contains a number of competing theories and we highlight the fundamental distinctions among them and draw out their respective limitations. We specifically examine the role of politics within the CC literature and how emerging conceptions of politics may contribute to understanding institutional change in capitalist systems.

KEYWORDS

Comparative capitalism; business and society; institutional change; path dependence; comparative advantage; policy coalitions.

1. INTRODUCTION

The notion of distinct national varieties or systems of capitalism gained considerable currency in the last two decades. Institutional economics and economic sociology have argued that successful capitalism comes in more than one variety (Aoki, 2001; Milgrom and Roberts, 1994; Sorge and Warner, 1986). Yet increasing globalization raises the question of whether distinctions among capitalist systems are eroding. Perhaps because of this, capitalist diversity is now being studied intensely by an international academic community with eclectic backgrounds in political science and sociology, as well as Marxist and institutional economics.

This special review essay highlights three theoretical premises which define and distinguish what we call the comparative capitalisms (CC) approach to political economy. First, national economies are characterized by distinct *institutional configurations* that generate a particular systemic 'logic' of economic action.¹ Second, the CC literature suggests a *theory of comparative institutional advantage* in which different institutional arrangements have distinct strengths and weaknesses for different kinds of economic activity. Third, the CC literature implies a theory of *institutional path dependence*.

Beyond these common premises, the CC literature lacks agreement on the number of distinct types of capitalisms, the key institutional domains to be used in constructing such typologies, the concepts or dimensions used to compare institutions within those domains, and the functional linkages hypothesized among domains. The CC literature thus contains a number of competing theories and predictions about institutional change, the sources of economic dynamism, and the role of politics.

In this review we do not seek to unify these typologies, advance another, or single out one as 'best'. Rather, we highlight the fundamental distinctions among them and draw out their respective limitations. The CC literature aims at mapping the comparative statics of distinct and coherent national 'models' wherein institutional elements are seen as mutually interdependent. Yet some approaches examine institutional linkages in terms of specific functional or economic relationships, while others consider broader social elements (e.g. patterns of legitimate authority) or the role of governance (e.g. enforcement by third parties). As we argued elsewhere, the CC approach faces challenges in developing a more dynamic view of how institutions change (see Deeg and Jackson, 2007). In this review we stress a particular aspect of this problem – namely, how to conceptualize the role of the state and politics in relation to CC. We identify four dimensions of politics that are gaining relevance within the CC literature: the dynamics of political coalitions, the capacity of the state as an actor, the role of discourse and ideas, and the interaction of national and transnational politics.

In this paper, Section 2 briefly traces the intellectual antecedents of the CC literature in early comparative studies. Section 3 reviews and analyzes some of the leading frameworks within the literature. Section 4 highlights the similarities and differences among typologies and critiques them. Section 5 examines the role of politics within the CC literature and looks at how politics may contribute to understanding institutional change.

2. INTELLECTUAL ANTECEDENTS AND BUILDING BLOCKS OF COMPARATIVE CAPITALISM

The CC literature stands in contrast to neo-classical economics, which demotes the importance of non-market institutions, or international business

(IB) scholarship, which sees them as hindrances or substitutes for functioning markets (Khanna *et al.*, 2005). Different types of capitalism were initially explored within Marxist theories of historical evolution (Hilferding, 1910) or positions within a world system (Wallerstein, 1979). By contrast, the CC literature emerged by drawing together institutionalist approaches in economics, sociology and political science. Institutionalism focuses attention on how social and political variables influence the functioning of various economic domains and hence shape economic performance across countries.

In political science, Andrew Shonfield's seminal treatise, *Modern Capitalism* (1965), analyzed how state actors could intervene in diverse ways to govern their economies, depending on the mix of public and private ownership, the planning capacities of the state, and role of associationally organized capital and labor. The 1970s *neo-corporatism* literature also analyzed the divergent responses of different nations to manage the growing problems of inflation and unemployment in terms of the capacities of peak organizations of labor and capital (Schmitter and Lehmbruch, 1979).

Labor scholars also developed a rich tradition of comparative studies of work (Dore, 1973), industrial relations (Crouch, 1993) and systems of vocational training (Thelen, 2004). In particular, the 'societal effect' approach was seminal in comparing micro aspects of work organization by comparing matched pairs of factories in France, Germany and the United Kingdom (Maurice *et al.*, 1986; Sorge and Warner, 1986) and interpreting these in terms of wider sets of interrelated institutions: organization, skill formation, industry structure, industrial relations, and innovation. This pioneering work essentially set the stage for 'holistic' comparison that understood institutional settings as systemic configurations, rather than isolated attributes – a cornerstone of the CC literature. This literature was later extended by comparative studies of production regimes such as Taylorism, lean production or diversified quality production (Sorge and Streeck, 1988; Streeck, 1992). In a parallel development, other scholars likewise compared financial systems in terms of 'bank-based', 'market-based', and 'state-led' systems (Zysman, 1983) or the degree of stock market development and investor protection (La Porta *et al.*, 1999). Corporate governance scholars began to employ various typologies distinguished by the role of banks, ownership concentration, or the role of different stakeholders, such as employees (Aguilera and Jackson, 2003).

For business scholars, differences in ownership, finance, and employment suggested systematic differences in the strategic resources (Chandler, 1990; Porter, 1990) and capabilities of firms (O'Sullivan, 2000). In addition, a growing comparative institutional literature emerged around national systems of innovation (Kitschelt, 1991; Nelson, 1987) that distinguished between types of innovation, such as organizational or technical, process or product, and radical or incremental forms. A macroeconomic line of work

called 'regulation theory' used these differences in the wage/labor nexus² to interpret different types of cyclical or structural crisis (Boyer, 1988).

Michel Albert (1993) popularized many of these ideas by his notion of Rhineland vs. Anglo-Saxon capitalism. The CC literature systematized this approach by using existing comparisons of particular institutional domains as 'building blocks' to construct broader, synthetic theoretical approaches. Unlike past studies, comparisons of national systems saw institutions as systemically interdependent configurations, rather than in isolation (Aoki, 2001). National institutions cohere into non-random 'types' or patterns – although scholars are yet to agree whether these form only two broad types, six families of capitalism, or even an infinite number of unique institutional constellations.

These differences aside, three analytical premises inform the diverse conceptual frameworks within the CC literature, allowing us to see them as 'species within a genus'. Moreover, it is the combination of these that give the CC literature its innovative character. First, drawing on 'embeddedness' from economic sociology, economic action takes places within social contexts and is mediated by institutional settings (Granovetter, 1985). Beyond the comparison of state economic policies and formal institutions, the CC literature compares differences in how private economic activity is socially organized and institutionalized. The CC literature thus offers a distinctive institutional theory of the supply-side, namely the collective supply of inputs (e.g. skills, capital) institutionally available to firms. Taken together, these socially embedded institutions produce a nationally-specific logic of action.

Second, the CC literature conceptualizes the various institutions within an economy as complementary (Aoki, 2001; Milgrom and Roberts, 1994).³ Complementarity is a particular case of functional interdependence where institutions in different domains positively reinforce outcomes or enhance the utility of institutions in other domains. This gives rise to specific, non-random configurations of institutions because random combinations are inefficient (or socially incompatible) and thus either weeded out through various processes, or lead to relative underperformance: Complementarity is what makes taxonomies of capitalisms possible. Different configurations are associated with distinct comparative institutional advantages for particular kinds of innovation, production strategies, or distributional outcomes.

Third, CC scholars stress how common pressures may be refracted through different sets of institutions, leading to different sorts of problems and calling forth distinct solutions. Given institutional complementarities and social embeddedness, national models will evolve in an incremental and path-dependent manner. Contrary to various convergence theories, the CC literature thus sees capitalist diversity as persisting, if not increasing, under conditions of increased global competition.

There is also a common methodology in the CC literature; namely, a case-based comparative approach that focuses on similarities and differences between countries. This contrasts to more variable-based approaches to institutions, which look at particular institutional parameters in isolation and over a large sweep of countries (Jackson and Deeg, 2008). The focus in the CC literature is usually national-level cases (or families of nations), although this complements similar research comparing regional and sector-level institutions (Herrigel, 1996; Hollingsworth *et al.*, 1994).

3. ALTERNATIVE FRAMEWORKS FOR COMPARING CAPITALISM

This section examines three prominent CC approaches: varieties of capitalism, national business systems, and the governance approach. We compare these approaches in terms of the institutional domains used to classify national regimes, the resulting typologies describing different types of capitalism, and how the linkages between institutions are theorized. These three approaches are useful in demonstrating a trade-off between parsimony and complexity in comparative analysis, but also point to some common deficiencies in analyzing the politics of institutional change.

The varieties of capitalism approach

Within the CC literature, the 'Varieties of Capitalism' (VoC) approach centers on the work of Peter Hall and David Soskice (2001). These authors compare capitalisms as *production regimes* defined by strategic interaction among firms, employees, and shareholders. The framework offers an explanation for cross-national differences in firm strategy and behavior based on four institutional domains that define firms' incentives and constraints: financial systems and corporate governance, industrial relations, education and training systems, and the inter-company system. Welfare states are also mentioned as supporting particular production regimes (Hall and Soskice, 2001: 50–1). While this idea is only partly integrated into their framework, it has inspired an ancillary body of literature that demonstrates the variety of linkages between welfare states and models of capitalism (Ebbinghaus and Manow, 2001; Mares, 2003).

Hall and Soskice begin with resource-based theories of the firm (Barney, 2001), and the notion that firms seek core competencies that enable them to produce and market goods or services profitably. Developing these competencies requires firms to establish and manage relationships with other firms and agents. Following the new institutional economies of industrial organization (Milgrom and Roberts, 1994; Williamson, 1991), these relationships also create coordination problems. Through strategic interaction

actors find equilibrium solutions to these problems within a range delimited by the institutional context.

Focusing on the mid-1980s to mid-1990s, the authors distinguish two basic types of production regimes (capitalisms): *liberal market economies* (LMEs) and *coordinated market economies* (CMEs). This typology is based on the relative extent of market coordination through investment in transferable assets (LMEs) vs. non-market or strategic coordination through investment in specific assets (CMEs). LMEs and CMEs represent polar opposite ideal-types: the four institutional domains are also characterized in dichotomous terms; long-term (CME) versus short-term (LME) finance, regulated (CME) versus deregulated (LME) labor markets, general (LME) versus vocational (CME) training, and strong inter-firm competition (LME) versus inter-firm coordination (CME).⁴ The approach culminates in a theory of comparative institutional advantage wherein CMEs excel, *inter alia*, at incremental innovation and LMEs at radical innovation (Hall and Soskice, 2001: 32).

A crucial assertion is that models of capitalism display strong *complementarities* between the four institutional domains. Where institutions facilitate strategic (or market) coordination in one domain, these support similar forms of coordination in other spheres. The presence of complementarities leads the authors to argue that institutions should cluster into the relatively cohesive types as described above; those that do not will yield inferior economic performance. Since the publication of this work, substantial debate has erupted over how to reconcile its view of complementarities as 'mutual reinforcement' with empirical observations of widespread institutional incoherence and change. While conflicting institutions may have destabilizing or adverse economic effects, they may also create space for greater organizational diversity that enhances evolutionary adaptation within an population of firms (Crouch, 2005).

Moving forward on these debates comes down in part to spelling out what causal processes might produce institutional complementarities. Are they created through strategic state policy, by the intentional action of market actors, or processes of competitive selection? Hall and Soskice offer only a few general hypotheses. One hypothesis links the political strength of producer interests with regime characteristics: political systems that foster decision through consensus favor the policies and institutional stability necessary for asset-specific production strategies found in CMEs (Hall and Soskice, 2001: 49–50).

Ultimately this approach runs into to several limitations in dealing with dynamic aspects of political economy. Given that strategy follows structure, it rightly argues that business firms may react differently to similar exogenous pressures, such as international competition (Hall and Soskice, 2001: 64). But their strong version of complementarities and path dependence makes it hard to discern how endogenous dynamics and change

of capitalist models might arise. The theory thus describes relatively static models of capitalism – a now widespread criticism of this approach (Allen, 2004; Blyth, 2003; Howell, 2003). Accordingly, there have been many subsequent efforts to refine and extend this approach, and we discuss some of these below.

1. National business systems

The approach of Hall and Soskice was primarily focused on Western Europe and North America. Yet there is a rich literature on East Asian capitalism that inspired alternative CC approaches (see Johnson, 1982; Whitley, 1992). Here a central focus is on differences in how enterprise groups coordinate and control economic activity, as well as how national differences reflect the institutionalization of nationally distinct patterns of behavior and authority, captured in concepts like community (Japan), patrimonialism (Korea), and familial networks (Taiwan) (Biggart, 1991). Later comparisons sought to incorporate both Asian and western cases, distinguishing more broadly between three types of capitalism: alliance capitalism, dirigiste capitalism, and familial capitalism (Orru *et al.*, 1997).⁵

Drawing on this rich understanding of East Asia, Richard Whitley greatly extended this work and developed a systematic and ambitious approach to comparing 'business systems', defined as 'distinctive patterns of economic organization that vary in their degree and mode of authoritative coordination of economic activities, and in the organization of, and interconnections between, owners, managers, experts, and other employees' (Whitley, 1999: 33). Rather than seeing firms as unitary actors, Whitley links interactions among stakeholders to the development of diverse firm capacities. Two general variables produce diverse business systems: the degree and scope of ownership integration, and the degree and scope of alliance (or horizontal) integration among firms. Within these, business systems are compared along eight dimensions:

- (1) the means of owner control (direct, alliance or market),
- (2) extent of integration of production chains by ownership (low, medium, high),
- (3) extent of integration of industrial sectors through ownership,
- (4) extent of alliance coordination of production chains,
- (5) extent of collaboration between competitors,
- (6) extent of alliance coordination of sectors,
- (7) extent of employer–employee interdependence, and
- (8) extent of delegation to and trust of employees.

This approach yields eight ideal-types of business systems (Whitley, 1999, 2007). In *fragmented* business systems, ownership and alliance integration (coordination) are very low such that economic activity is undertaken by small firms in highly competitive markets. In *project network*

systems ownership integration is low but firms are specialized and share some resources and engage in cooperation for mutual gain. In *industrial districts* ownership coordination is also fairly low but alliance or horizontal coordination is fairly high. In these first three systems, smaller firms play a relatively large economic role while in the remaining five, large firms predominate. In *financial conglomerate* systems, scope of ownership is high but alliance integration is low due to the prevalence of loose holding companies or cross-ownership networks based on partial holdings. In *integrated conglomerate* systems, alliance integration is still low, but ownership scope and degree are high. In *compartmentalized* systems, such as the US, large integrated and somewhat autarkic firms compete with each other in arm's-length markets. *Collaborative systems* imply a rather corporatist or associational organization of competitors within a sector. Finally, *highly coordinated* systems utilize an alliance form of ownership to coordinate activities across sectors, such as in the Japanese keiretsu.

Whitley distinguishes carefully between the dimensions of the institutional environment and the internal aspects of firm organization, linking these with schematic hypotheses about institutional effects. Institutions are compared along several dimensions:

- (1) *States* are compared as to the strength of intervention, the degree to which they encourage intermediary organizations, and the strength of market regulation.
- (2) *Financial systems* are compared as being capital market vs. bank-based.
- (3) *Skill development and control* is compared in terms of the strength of public training, the strength of unions, the organizing principle of unions (skill, sector or employer), and the centralization of bargaining.
- (4) *Trust and authority* are compared as to the degree of trust in formal institutions, the type of business environment, and the relative degree of paternalist, communitarian, or contractarian authority.

In recent work, Whitley (2005, 2007) takes this analysis further to address the issue of internal diversity within national business systems. The essential argument is that the character of the state determines the degree of institutional coherence and homogeneity across the national economy: liberal states act as market regulators with minimal intervention, thus allowing for maximum internal diversity; promotional states direct economic activity in more detail and constrain internal diversity because they organize interest groups in order to achieve either developmental goals (developmental state) or social harmony (business corporatist state); the least amount of diversity, and hence the most truly *national* of business systems, is found in inclusive corporatist states.

Whitley's typology also categorizes what Hall and Soskice term 'coordinated' economies more precisely due to the greater focus on sociological variables and the internal make-up of firms. He makes more fine-grained

distinctions among different forms of non-market coordination and even different sorts of hierarchies within firms. In terms of institutional change, Whitley also stresses the path-dependent aspects of national business systems arising from complementarities. However, Whitley's discussion of the state adds a further aspect of institutionalization, namely the differing degrees of coherence rooted in diverse patterns of state intervention and patterns of legitimate authority and trust. Thus the business systems approach observes that coherence is much lower within some national capitalisms than others. Lack of internal coherence may mean that change is easier and more likely, as well as that the possible combinations of practices are greater. So change is possible, but within some broader boundaries – which resonate with recent notions of institutional meta-traditions (Sorge, 2005).

Governance approaches

Another more loosely integrated approach may be associated with a series of collaborative publications starting in the 1990s (Crouch and Streeck, 1997; Hollingsworth and Boyer, 1997; Hollingsworth *et al.*, 1994). These authors map institutional diversity in terms of generic coordination mechanisms used in the governance of economic activity. Beyond the traditional distinction between markets and hierarchies, the framework includes communities, the state, networks, and associations. These six basic governance mechanisms differ along two underlying dimensions: the degree to which actors follow self-interest versus social obligations, and the degree to which power is distributed horizontally or exercised vertically. Each governance mechanism has its own organizational structure, rules of exchange and enforcement, and typical strengths and weaknesses (Hollingsworth and Boyer, 1997: 6–19). In contrast to Hall and Soskice, who emphasize rational, strategic behavior within a set of fixed institutions, the governance framework gives more attention to social norms and 'logics of appropriateness' in shaping actor behavior and institutional choices.

In early work authors used industrial sectors (rather than nations) as a basic unit of comparative analysis and found significant differences in governance mechanisms across sectors within individual countries (Hollingsworth *et al.*, 1994). Yet 'just as sectoral differences in technology and market conditions give rise to differences in industrial order within countries, national differences produce different governance regimes within sectors . . . Differences in governance within sectors are often recognizable as national differences in that they follow a similar logic across sectors' (Hollingsworth and Streeck, 1994: 272). They explain this by arguing that social institutions supporting different mechanisms of economic governance are largely nationally distinct. Parallel to Hall and Soskice, these findings thus link national institutions with comparative institutional

advantages in particular sectors or market segments and different sorts of company strategies.

Several innovations and extensions of this approach were made in subsequent work. First, a more systematic notion of 'social systems of production' (SSP) was introduced to describe and explain the dominant production strategies of firms as they are coordinated through different governance mechanisms and supported by their embeddedness in particular institutional configurations. This framework highlights differences between Fordist mass production and alternative patterns of flexible specialization or diversified quality production. Second, the affinities between particular coordination mechanisms and the spatial-territorial scope of governance were examined. Four levels of spatial organization were distinguished: regions within a country, nation-states, transnational regions such as the European Community, and the global level (Hollingsworth and Boyer, 1997: 24–33).

The governance approach was also applied to holistic comparison of national varieties of capitalism, with a broad distinction made between countries governed largely by markets and hierarchies (market capitalism) and those using a richer variety of coordination mechanisms (institutional capitalism) (Crouch and Streeck, 1997). More recently, Bruno Amable (2003) combined many aspects of the strategic interaction and equilibrium analysis central to Hall and Soskice with the sensitivity to social embeddedness highlighted in the social systems of production approach. Amable bases his typology on five institutional domains: product market competition, labor market institutions, finance and corporate governance, social protection/welfare state, and the education/training system.⁶ Through cluster analysis he identifies five models of capitalism: market-based model, social democratic model, Continental European model, Mediterranean model, and an Asian model (2003). Amable also pushes harder on incorporating the socio-political dimension of capitalisms, and defines institutions as 'political-economic equilibriums' to reflect the fact that they embody political compromises as well as functional rules, and that they solve conflicts among unequal actors with divergent interests (Amable, 2003: 7–11). Further, institutional choices and the hierarchy of institutions reflect the preferences of the politically dominant social bloc.

4. COMPARING COMPARATIVE APPROACHES TO CAPITALISM

The previous section outlines a number of distinct approaches for comparing capitalism across countries, summarized broadly in Table 1.

The review points to three theoretical premises – complementary institutional configurations, comparative institutional advantage, and path dependency – which define and unify these approaches into the CC literature.

Table 1 Comparative capitalism: selected analytical frameworks for comparing national business systems

Representative authors	Institutional domains	Country groups	Notes
Hall and Soskice	Financial systems, industrial relations, skills, inter-firm coordination	Liberal vs. coordinated (industry- vs. group-coordinated)	Rooted in transaction cost analysis
Hollingsworth, Boyer, Streeck, Crouch	No systematization	Every case unique	Based on six governance mechanisms for coordinating transactions: markets, hierarchies, states, associations, networks and communities
Amable, Boyer	Product market competition, the wage-labor nexus or labor market institutions, finance and corporate governance, social protection/ welfare state, and the education/training system	Five country clusters	Uses some inductive clustering of types, unlike the more a priori approach of Whitley
Whitley	States, financial systems, skills, trust/authority	Eight ideal-types: fragmented, project network, industrial district, financial conglomerate, integrated conglomerate, compartmentalized, collaborative and highly coordinated	Compares eight dimensions of coordinated related to horizontal vs. vertical organization, control through ownership vs. non-ownership and employer-employee dependence
Schmidt, Rhodes, Ebbinghaus and others	Stress on state, welfare state	Four types within Europe	Eclectic

In this section we discuss issues of debate related to these premises which point to avenues for future research and theorizing. Many of these debates connect to the question of what role politics play in constituting and changing systems of capitalism, which we take up specifically in the subsequent section.

Capitalism as configurations: Domains, dimensions and typologies

The previous section clearly illustrates that no agreement exists on which institutional domains to include in cross-national comparisons, nor on the number of dimensions and complexity of types used to analyze each domain. Whereas Hall and Soskice use bipolar types of strategic and market coordination across all domains, others like Amable and Whitley use three-fold or even more complex typologies specific to each domain. Approaches also differ as to whether and which institutional domain is the primary determinant of the overall systemic logic, i.e. complementary institutional domains are adapted or evolve in response to the primary domain. For example, in regulation theory the wage-labor nexus was the dominant domain during the period of Fordism, but has since been supplanted by the financial domain (also Amable, 2003). How state structures and politics factor into the determination of capitalist systems also varies considerably.

At the level of national typologies, most approaches include a similar cluster of liberal or market-oriented economies.⁷ However, greater differences emerge in classifying and understanding nonliberal or coordinated types of capitalisms. VoC largely elides distinctions among coordinated systems in order to develop a parsimonious dichotomy that has a distinct advantage in hypothesis testing using statistical models (Hall and Gingerich, 2004; Rueda and Pontusson, 2000). However, this stretches the concept of 'coordination' to cover very different mechanisms and patterns (Allen, 2004; Streeck and Yamamura, 2001). Likewise, broad categories such as 'coordinated' may lead one to overlook important changes within such broad types which fall short of complete shifts to the opposite bipolar category (Deeg, 2005; Jackson, 2005b; Vitols, 2004).

One possible solution to the 'how many varieties of capitalism' question is to avoid using national typologies and focus on very specific paired comparisons or interpreting single cases using a common vocabulary (Crouch, 2005; Crouch and Streeck, 1997). The SSP approach, for instance, is primarily concerned with developing a typology of governance mechanisms and stresses how each national case is unique. Similarly, some institutional economists have focused more on middle-range theoretical models that map institutional diversity within particular domains and model a limited number of bilateral linkages between them, rather than entire national models (Aoki, 2001). An intermediate position is taken by Whitley whose typologies incorporate a wide range of institutional variables and

compares them along bipolar or sometimes more complex dimensions. He is thus able to identify a larger number of distinctive types of business systems (which are not necessarily national in scope), while at the same time mapping this variation in a systematic way. Another intermediate but more inductive approach is to include a larger number of institutional domains and domain elements but aggregate these into types using techniques such as cluster or qualitative comparative analysis (see Amable, 2003; Boyer, 2004; Kogut and Ragin, 2006).

In sum, these issues of comparative method remind us that studying capitalist diversity involves trade-offs between studying institutional diversity as a parsimonious and testable 'variable', or seeing cases as highly contextual and all causal effects as contingent (Jackson and Deeg, 2008; Rueda and Pontusson, 2000). A key issue of contention thus remains regarding how adequately different approaches describe the empirical patterns across a wide range of countries. Moving forward on this issue is made even more complicated by additional factors. First, the countries in transition from socialist to post-socialist economies do not fit easily within some of the existing typologies used in the literature (Lane, 2005). Second, the internationalization of economic activity has sparked a large literature trying to reconcile the relative weight of home vs. host country institutional influences on multinational enterprises (MNEs), thus pointing to the growing phenomenon of firms engaging in institutional arbitrage between national systems of capitalism (Ferner *et al.*, 2004). Finally, the growth of transnational rule-making or governance, such as in the European Union, suggests national-level variables must be analyzed through their interaction effects with transnational variables (Djelic and Sahlin-Andersson, 2006), as we will discuss in Section 5.

Comparative institutional advantage

A central tenet of the CC literature is caution against the notion of a single best way to organize an economy, since institutional diversity creates *comparative institutional advantage* in different sorts of economic activity. Validating this thesis ultimately requires linking different systems of capitalism to performance outcomes. What aspects of economic performance are generally considered?

The bread and butter of the VoC approach is a firm-centered perspective describing the affinities between different institutions and the *product market strategies of business firms*. Business strategies are generally described in broad qualitative terms and point to different niches in terms of price, quality, and innovation.⁸ For example, patterns of innovation differ between the incremental approach of Germany and Japan versus the more radical innovation that is supported by the flexibility and risk taking advantages of markets in the USA. The central hypothesis implied by this line

of reasoning is that different types of capitalism will favor different patterns of *sectoral* specialization and success. While there is considerable supporting evidence for this, firms in the same sector operating within distinct capitalist settings can – following different market strategies – nonetheless be similarly successful in terms of growth and profitability (Boyer, 2004).

Growing attention is also being paid to *macroeconomic performance*, such as growth and unemployment. Yet the ability of the CC literature to explain divergence in macroeconomic performance remains unproven. Hall and Gingerich (2004) found evidence to validate the VoC thesis that macroeconomic performance is positively correlated with the degree of internal coherence around either market or strategic coordination: but Kenworthy (2006) finds no correlation, indicating that the research may lack robustness with regard to the time periods and classifications of countries. Campbell and Pedersen (2007) have even argued that Denmark performed better *after* becoming an institutionally mixed economy (also Martin and Thelen, 2007). Together these suggest that CC approaches are thus far better at explaining sectoral and firm-level success than national economic performance. One possible reason for this is that the institutional complementarities on which the approaches turn are easier to validate at the firm and sectoral level – or that they may only operate at this level (Deeg, 2007). The CC approach implies that poor performance should feed back into institutional change. Yet, it offers few ideas about the feedback mechanisms between performance and institutional change.

Finally, one underemphasized aspect of the CC literature that calls for more research concerns the *distributional consequences* of diverse capitalisms (Iversen, 2005). For example, national corporate governance models have different normative conceptions of who should control the corporation, and create distributions of value-added among the various stakeholders within the firm. Another issue concerns international differences in the levels of inequality (Rueda and Pontusson, 2000). Countries such as Sweden, Germany, or Japan were able to achieve strong economic performance and maintain much more egalitarian patterns of income distribution than Anglo-Saxon models of capitalism. However, institutional change in recent years has disrupted many of the distributional compromises embedded within past models of capitalism, precipitating more intense distributive struggles among major social groups (Dore, 2000).

Any analysis of competitive advantage is premised on knowing the *function* of institutions in the context of a particular strategy or performance outcome. However, it is clear that institutions may remain formally the same while their specific functions do not (Gilson, 2000; Streeck and Thelen, 2005). An example of this is the German system of codetermination (Jackson, 2005a). Similarly, a growing body of research suggests that firms can pursue strategies that do not ‘fit’ well within the system logic, yet succeed by using institutions in different ways as their preferences and

needs change (Hancké, 2002; Sorge, 1991). This suggests that the CC literature must consider a more contingent view of institutions and be able to recognize and theorize when formal stability masks functional change; or, conversely, when formal change masks functional stability, as Vogel (2006) finds quite common in Japan.

Institutional path dependence

The CC literature largely rejects the convergence hypothesis that national varieties of capitalism will move toward a single model (Jacoby, 2004; Vogel, 2006; Yamamura and Streeck, 2003). Change in national capitalisms is argued to be incremental and path-dependent, in the sense recently used within the economics literature (David, 1985). In the CC approach institutional complementarity is a powerful source of path dependence (see Aoki and Jackson, 2008; Pierson, 2004). Faced with common external challenges, firms in different countries are likely to adapt in different ways in order to preserve the complementarities created by their institutional contexts. Piecemeal borrowing of institutions may fail to generate the same sorts of efficiencies associated with the initial model (Streeck, 1996), since practices or institutions may lack support of other complementary institutions. Thus, while change may occur, adjustments would be largely path-dependent and unlikely to transform the overall institutional configuration from one type of capitalism to another (Hall and Soskice, 2001). However, the same theoretical argument about complementarity also suggests the opposite outcome is possible: if a new institution becomes established, institutional change may occur more like a house of cards collapsing, or at least induce a steady erosion of other institutions (Lane, 2003). The CC literature has yet to sort out the conditions under which complementarity facilitates or hinders change (Deeg, 2007).

The strong notion of path dependence in CC approaches has led to wide criticism for too much focus on comparative statics and failure to accommodate institutional change (Blyth, 2003; Howell, 2003). And the last decade or so has seen considerable change in all systems of capitalism – so much so that the carefully developed typologies of the 1990s are increasingly questioned (Soederberg *et al.*, 2005). Significant evidence suggests that some national economies no longer fit into the category or ‘type’ of capitalism to which they were ascribed during the early 1990s. In some cases this shift is quite radical (e.g. New Zealand, France) and a country may be convincingly moved to a different category of capitalism. But generally the change of institutions presents a mixed picture, thereby creating situations in which a national political economy sits uneasily between two or more categories (Molina and Rhodes, 2007). Capitalisms characterized by extensive non-market institutions are also considered especially vulnerable to erosion from general liberalization pressures (Yamamura and Streeck, 2003).

Some recent work, such as Amable's (2003) have attempted to build in a theory of institutional change, thus establishing a framework for assessing when and how some capitalist systems may shift from one category to another (see also Hancké *et al.*, 2007). Others have continued to argue that basic national patterns persist in the face of pressures for change, but they apply to a shrinking portion of the economy due to increasing internal diversity (Jacoby, 2004; Sako, 2005). But this raises the critical question of *when does a shrinking institutional core cease to characterize the economy as a whole?*

This competing imagery of institutional change points to theoretical ambivalence. It appears reasonable to argue that national capitalisms follow distinctive 'paths' in a general sense of historical legacies. But placing too much emphasis on the coherence and complementarities among institutions may lead to overestimating the degree of stability. The foundation of the VOC model in transaction cost economics means it sees the different domains as relating to each other according to the same economic logic (e.g. coordination) and hence represents sets of mutually reinforcing alternatives. However, functional interdependence between various domains may relate to multiple dimensions of economic exchange (Crouch *et al.*, 2005), and the complementarities between domains subject to different political and social dynamics. Different institutional domains have their own unique logic (or *Eigengesetzlichkeit*, following Max Weber), and thus evolve 'historically' in the sense of being open to political contention and ideological reinterpretation.

These considerations have led to empirical work on the dynamics of national capitalisms by looking at their historical origins (Streeck and Yamamura, 2001). The historical perspectives show that broad types of capitalism are more dynamic than previously assumed. In particular, different capitalisms were not created as coherent wholes but the result of political contention and often the unintended result of piecemeal development (Aoki, 2001). Likewise, recent studies of contemporary transformations of national capitalisms suggest a wide scope for 'hybridization'—a dynamic mixing and matching of institutional elements that change the characteristic linkages and nature of complementarities between institutional elements (for example, Aoki and Jackson, 2008; Djelic, 1998). In sum, the CC literature must meet the 'challenge of change' by reexamining its typologies, but also by establishing a theoretically grounded approach for analyzing newer hybrid forms of capitalism.

5. DISCUSSION: POLITICS OF CHANGE IN DIVERSE CAPITALISMS

Our review of the CC literature shows a common focus on the coherence of models and path-dependent aspects of change. Elsewhere, we have argued

that understanding institutional change requires better micro-level analysis of how firms strategically relate to institutions, as well as the meso-level analysis of how different institutional domains are linked (Deeg and Jackson, 2007). In this final section, we examine macro-level aspects of how politics and power could be more effectively incorporated into existing CC approaches to better explain the origins and transformation of capitalist models. We argue specifically that understanding the role of politics within CC analysis needs to focus on four dimensions of politics: the role of political coalitions, the state as an actor, discursive aspects of policy and politics, and the distinctive nature of transnational dimensions influencing the other three dimensions of coalitions, state capacities and policy discourses. While recent CC scholars have started to address these various issues, these efforts remain piecemeal and leave an important agenda in integrating these dimensions into a political analysis of capitalist diversity.

The politics of coalitions

Nearly all CC approaches make some reference to political coalitions in shaping institutions and institutional change. However, scholars have only recently begun to integrate coalitional theories systematically into CC frameworks. These works link the analysis of interest group politics (e.g. classes, sectors) with features of the political system (e.g. majoritarian vs. consensual systems) in explaining the formation or change of institutions.

Several recent works build on the initial VOC hypothesis that the majoritarian or consensual nature of the political system shapes the emergence of interest group coalitions and the possibilities for institutional change or reform. Soskice (2007), for instance, has broadened the VoC framework to articulate patterns of complementarities across production regimes, political systems, welfare states, and what he calls aggregate demand management regimes (ADMR). CMEs are connected with consensual political systems, social democratic or continental welfare systems, and rules-based or restrictive ADMR. LMEs are connected with majoritarian politics, liberal welfare regimes, and discretionary ADMR. While he uses this to explain differences in employment performance across national economies, it is broadly instructive as an attempt to elaborate a fuller VoC conception of politics. Within this conception, a consensual system supports CMEs in several ways: First, it allows key interest groups (especially producer groups) broad access to and participation in policymaking, and it allows for negotiated (and incremental) change in which the prior investments of actors in specific assets can be taken into account. Second, consensual systems empirically favor left of center governing coalitions (see also Amable, 2003) which tend to favor the more redistributive welfare state that is complementary to a CME production regime. Finally,

consensual systems induce – and enable – political parties and interest groups to pursue restrictive fiscal and monetary policies because these actually lead to a pareto optimal outcome under the extant institutional arrangements.

Iversen (2005) and Soskice (Iversen and Soskice, 2006) further develop this argument using their concept of ‘welfare production regimes’. Here the emphasis falls more on voting rather than lobbying coalitions. The argument starts from a hypothetical exogenous shock (e.g. rising unemployment) that leads to different responses depending on the set of complementary institutions as outlined in VOC. The analysis incorporates individual voter preferences and links these via two mechanisms to policy preferences. First, voters with income below the mean are argued to prefer at least some redistribution. Drawing on the median voter theorem, this means that electoral support for redistributive policies rises in line with rising inequality. Second, the more an economy relies on non-transferable or specific skills (high in CMEs), the more voters will demand insurance against income loss (via strong redistributive or welfare state policies). This explains voter *demand* for redistributive and social insurance policies, but the *supply* of such policies is conditioned by political institutions. Here Iversen turns to electoral systems. CMEs are complemented by proportional representation because it favors the stronger redistribution and insurance demanded by median voters. The argument supports the original VoC proposition that CMEs, when confronted with competitive pressures (shocks) will follow incremental change, while LMEs will be inclined toward further liberalization.

A third coalitional approach emphasizes the dimension of social class in building coalitions. Molina and Rhodes (2007), focusing on the under-researched category of Mixed Market Economies (MMEs), argue that institutional change follows a top–down logic best understood by analyzing macro-social dynamics of conflict and political exchange, the institutional veto points created by the political system, and the access of reform coalitions to policymaking. The first step is to delineate the distinctive logic of collective action in MMEs, where employers and labor are insufficiently organized to create autonomous frameworks of coordination, but organized enough to be collective veto players; this coordination failure leads to state intervention as the dominant mode of system governance. The coalition logic in both countries follows a class conflict pattern, since insufficient coordination at either the micro or macro-levels inhibits stable cross-class coalitions. The next step is to link the collective action logic to the political system. Because the state is so pervasive, social groups invest a lot in forging close links with political parties, which then become a form of ‘dedicated asset’ between them. Investment in such assets is higher in PR (or consociational) systems because electoral losses are less likely to erase the value of the investment. Thus with PR and multiple veto points

in Italy, institutional change is more incremental and more disposed to negotiated solutions; while Spain's more majoritarian system and weaker labor disposes the state toward withdrawal from market regulation and the extension of market mechanisms. Molina and Rhodes thus also point to the importance of political parties as autonomous actors in shaping change (see also Hall, 2007).

A final strand of coalitional analysis focuses on linking coalitions of stakeholders at the micro-level of the firm with the broader political processes and political institutions – especially the legislative and regulatory – shaping patterns of institutional change in national capitalisms (Callaghan and Höpner, 2005; Cioffi and Höpner, 2006). An important body of work in this vein is corporate governance studies which start by modeling patterns of firm-level coalitions among workers, managers, and owners (Aguilera and Jackson, 2003; Gourevitch and Shinn, 2005; Höpner, 2003). Within firms, multiple stakeholder coalitions are possible. Which one prevails is a function of interests, historical and situational variables, and successful coalition building in the partisan arena. Alternative winning coalitions are associated with different financial and corporate governance systems (in effect, different forms of capitalism). Major institutional change occurs when exogenous changes lead to major preference shifts among the core groups and the supplanting of one dominant coalition by another (Heemskerck and Schnyder, 2008).

Altogether, these coalitional approaches are advancing our understanding of the politics of change. The Iversen–Soskice approach is quite useful in highlighting causal linkages across institutional domains, and especially linkages between PR electoral systems and CMEs. However, it retains much of the stasis-oriented predisposition of the original framework with change arising from exogenous shocks only, and this is based in part on its implicit assumptions about 'deep equilibriums' (Pierson, 2004). The producer/consumer, voter, and class coalitional approaches are quite useful in providing a systematic framework for hypothesizing the *general* policy preferences of broad social (electoral) groups at the macro-level, but do much less to help us understand specific policy choices and the sometimes unpredictable coalitions that support these.

The micro-level coalitional analysis helps redress this problem, but here too it comes short of recognizing the often issue-specific nature of political coalitions. For instance, labor and owners might both like transparency in corporate governance, and support legislation to this end, but they will probably not agree on takeover rules (Cioffi and Höpner, 2006). Thus to speak of a dominant coalition in a given political economy elides important political dynamics. These dynamics are, in fact, unlikely to be characterized by systemic choices between discrete types of capitalism but rather concern incremental changes or liberalization and piecemeal adjustments of inter-linked institutions (Streeck and Thelen, 2005). This insight also implies that

policy entrepreneurship and political discourse cannot be ignored when trying to understand specific institutional choices. We return to this point below.

The state as an actor

The state figures into nearly all CC approaches as a structural variable (e.g. majoritarian versus consensual character), while its role as a strategic actor is typically downplayed. Here CC approaches could tap into an alternative literature more directly concerned with identifying the sources of state capacity to structure the political economy (Evans, 1995; Wade, 1990; Weiss, 1998). While these do not share all of the unifying assumptions of the CC literature, they also posit alternative types of capitalism distinguished by the extent and character of state intervention in the economy. One key determinant of the state's capacity is its relationship to the capitalist elite, with state capacity being a function of 'embedded autonomy' (Evans 1995). Others see state capacity as emanating from its relationship to middle and lower social strata (Seabrooke, 2007). Links between state capacities and different models of political economy have also been made by economists such as Aoki (2001: Chapter 6), who argued that complementarities between different economic domains may be contingent upon particular modes of state intervention. For Aoki, then, the German pattern of corporate governance based on codetermination depends on the presence of a corporatist state, whereas the evolution of lifetime employment in Japan is supported by bureau pluralism in the political domain.

While much of comparative analysis of the state was inspired by 1980s debates over East Asian development, the concern for state autonomy and capacity is carried forward by some CC scholars and often provide different classifications of national systems. For example, Vivien Schmidt (2002) highlights three ideal-typical patterns of state economy policy in Europe: the 'liberal state' giving great autonomy to economic actors (UK), the 'enabling state' encouraging associational governance among private actors (Germany), and the 'interventionist state' directly intervening to coordinate private activity (France). In a somewhat similar vein, Howell (2007) challenges the VoC view of the UK as a long-standing liberal market economy marked by general institutional continuity. Prior to 1979 the UK did not, in his view, fit the liberal market model because of the substantial coordinating mechanisms that had been built up over preceding decades due to regular actions by the state. After 1979, the state – driven by ideology and class conflict – led the dismantling of these collective forms of coordination.

State action is also a deciding factor in explaining the different trajectories of change of otherwise seemingly similar types of national models. For example, Martin and Thelen (2007) compare Denmark and Germany as systems of coordinated capitalism, which nevertheless followed markedly

dissimilar paths of change since the early 1990s. This is attributed largely to the differing roles of the state. In Denmark, a large state – in terms of public employment and fiscal spending – provides state actors with both an incentive and the capacity to sustain macro-level corporatist bargaining. Public sector workers find a strategic political ally among low wage workers and together are powerful enough to induce workers and employers in the export sectors to sustain national bargaining. Economic dynamism under conditions of globalization was achieved through labor market deregulation combined with active labor market policy and fiscal expansion (i.e. ‘flexicurity’). In Germany, a much smaller state with less capacity could not sustain macro-level corporatism under similar conditions, and German firms maintain institutions of coordinated capitalism mostly for the manufacturing sector. Thus, while both countries remain CMEs, they are increasingly distinct sub-types. What is particularly helpful in the account of Martin and Thelen is that it provides a deductive logic to explain how the state as actor interacts with socio-political groups and regime structures – such as electoral systems – to produce policy and institutional outcomes.

A slightly different perspective on state capacity relates to the politics of implementation or enforcement (Culpepper, 2007). Formal legal rules created by the state have a complex relationship to the institutionalization of practices among private actors. First, states may create laws that are not enforced in practice. The corporate governance literature has noted a strong convergence in formal rules adopted around the world, but note that states have very different administrative capacities to actually enforce these rules. But perhaps more fundamentally, countries may have very different political capabilities to actually create such institutions – particularly when looking beyond advanced OECD countries to a wider scope of emerging economies. Second, echoing the notion of embedded autonomy, state policies may be hard to implement to the extent that they lack complementary supports from other institutions in a national system. Most institutions or rules contain ambiguity and room for interpretation in their enactment (Streeck and Thelen, 2005). Particularly in settings of economic transition such as China, ambiguity may be high and give rise to complex intermingling of public and private power (Oi and Walder, 1999). Thus political coalitions shape the implementation of rules or inhibit their enforcement; while the state also matters in its capacity to interpret and enforce *its* interpretation of rules enacted through formal political processes.

Policy discourses

A further and important claim made by both Schmidt (2002) and Howell (2007) is that the successful implementation or failure of policies is also

strongly related to the existence of policy discourses that frame interpretations and help legitimate those policies in terms of value-rational behaviors. Constructivist political economy has brought renewed attention to the role of ideas and discourse as irreducible elements of strategic interaction among actors (Abdelal, 2007; Campbell, 2004; Jabko, 2006; Posner, 2005). This literature starts from the proposition that one cannot read groups' interests or preferences strictly off structure, i.e. that they are constructed through social interaction. For example, the origins of nonliberal models of capitalism relate closely to particular discourse coalitions among bureaucrats, capital and labor (Lehmbruch, 2001). In this view, discourse is built around a set of basic beliefs and assumptions about values and objectives in the formation of public policy, thus defining the meaning of collective action and the collective identity of social actors in this discourse.⁹

Looking at policy as a discourse is thus important in understanding how policies issues are framed and legitimated *vis-à-vis* different interest groups. Discourse influences how issues may become bundled or symbolically defined ways that make coalitions possible, even if these are based on ambiguous forms of agreement. This discursive element may influence not only 'who wins' but how different institutions within national models are linked as political compromises. Discourses may themselves thus have long-term durable influences as they become embodied within elite policy networks, political parties and the like. Even if discourses may attain a seemingly hegemonic power to underwrite institutions, this fact does not imply that identical beliefs are held by all members of society. Rather, discourses reflect conflicting aggregations of beliefs as they become integrated through interdependent efforts at collective action. They form common terms of reference and vocabulary of motives within a particular network of actors with influence over public policy (Knoke *et al.*, 1996). This line of argument is also taken up by Jabko's (2006: 8) notion of 'strategic constructivism' – here the political and strategic use of ideas, rather than ideas themselves, is the primary engine of change. Thus for Jabko the revival of European integration was not the inevitable outcome of market globalization or regional integration, but rather the product of a political strategy by actors (especially the Commission) who used market ideas as a way to compensate for insufficient power. Likewise, reform efforts around the world are often framed in terms of overarching neoliberal ideologies (Soederberg *et al.*, 2005).

Discourse coalitions and strategic constructivism are, in our view, quite promising as it reinvigorates the CC literature with a neo-Weberian approach that integrates the material and ideational. Specifically, these perspectives incorporate an explicit, non-deterministic political dimension into various theories of capitalist variety. Such a political model starts with a theory of preference formation in which preferences grow out of the distinct institutional configurations of different capitalisms, and yet they cannot be

reduced to these configurations because interests must be symbolically articulated and anchored in particular sets of values. A discursive approach could then be incorporated into an analysis of the historical co-evolution between preferences and their translation into outcomes (rules, policies, etc.) or institutional change.

Transnational aspects of policy and politics

The final dimension of politics we wish to highlight is the supranational or transnational. Work on this subject suggests several perspectives for linking the CC literature more explicitly with international political economy. One view is that transnational institutions and rules are ultimately made and implemented by national actors. Thus the role of transnational politics can still be usefully analyzed within national arenas (Whitley, 2005, 2007). Another view is that transnational actors and processes are autonomous and lead to outcomes not strictly desired by, or under the control of, national political actors (Jabko, 2006; Posner, 2005). This rapidly expanding literature on transnational governance suggests that national states must now be seen as but one (albeit very important) actor among many within the multifaceted and multilayered policy networks that are producing all kinds of rules governing economic activity. Such rules are often in the form of 'soft law' – standards, norms, guidelines – and often made in ways that skirt or marginalize domestic political processes and interest groups (Djelic and Sahlin-Andersson, 2006).

In the CC literature the impact of transnational actors and processes generally continues to be treated as an exogenous source of change for national capitalisms. We suggest here that the kind of coalitional, statist, and discursive analyses discussed above have to be broadened to incorporate multiple levels of politics. Within the literature on the EU, for example, a growing body of work explores the linkages between domestic political coalitions and interstate politics (Callaghan and Höpner, 2005). Regional integration may likewise constrain state capacities and thereby influence policy developments domestically. Discourse on policy has become similarly international, influencing both policy debates and the diffusion of managerial practices across countries – such as debates over 'shareholder value' (O'Sullivan and Lazonick, 2000). Taken together the changing international context is a significant driver of institutional change, such that Höpner and Schäfer (2007) argue that the newer market liberalization efforts of the EU are no longer compatible with CMEs, thus threatening the latter's comparative institutional advantage.

Clearly CC scholars have much more work ahead to better understand the political dynamics of modern capitalism and ultimately the future viability of institutional diversity and prospects for new socio-economic alternatives. The growing salience of BRIC economies and post-socialist forms

of capitalism will only increase this demand for an understanding that studies institutions from an integrated social, economic and political perspective. In fact, to the extent that societies wish to have choices between different models of capitalism, future institutional development will require a much greater understanding of politics itself.

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NOTES

- 1 'Logic' means the typical strategies, routine approaches to problems and shared decision rules that produce predictable patterns of behavior by actors within the system.
- 2 The wage-labor nexus encompasses the organization of work, stratification of skills, mobility of workers within and between firms, principles of wage formation and disposal of wage income.
- 3 Complementarity may be defined as situations where the difference in utility between two alternative institutions $U(x')$ - $U(x'')$ increases for all actors in the domain X , when z' rather than z'' prevails in domain Z , and vice versa. If conditions known as 'super-modularity' exist, then x' and z' (as well as x'' and z'') complement each other and constitute alternative equilibrium combinations (Aoki, 2001).
- 4 The authors only briefly further differentiate between two sub-types of CMEs: in *industry-coordinated* economies, such as Germany, coordination takes place within the industrial sector or branch, whereas in *group-coordinated* economies, such as Japan or South Korea, coordination takes place across groups of companies.
- 5 Alliance capitalism, such as in Germany and Japan, involves elaborate horizontal linkages between institutional domains, and cooperation across the boundaries of firms. Dirigiste capitalism, as in France and South Korea, has institutional domains connected by the subordination of the private economy to centralized political influence. Finally, family capitalism such as in Italy or Taiwan is typified by smaller firms that are strongly segmented across the lines of personalistic family networks.
- 6 Each of his domain typologies is fairly complicated, producing four to six types or clusters of countries within each domain; this produces a relatively large and complex matrix of theoretically possible combinations of institutions.
- 7 This categorization nonetheless overlooks important differences between Britain and the US, such differences in the relative importance of codes vs. law in market regulation or even substantively different policies such as in the area of takeover markets or welfare states. Moreover, the term 'market-based' fails to describe important elements of the US economy, such as the important legacies of state and military intervention for the development of its innovation system.
- 8 Relatively little attention is paid to econometric comparison of company performance using accounting data.

- 9 Or as Peter Hall (1989: 383–4) describes, policy discourse and related political coalitions are ‘based on the networks of associations that relate common political ideas, familiar concepts, key issues, and collective historical experiences’.

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