

# Models of Capitalism

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That capitalist economies might take diverse forms has been long recognised by some scholars. Sometimes this diversity has been seen as a matter of evolutionary development. This was true of Max Weber's ideal-type approach, that of the advocates of postwar modernisation theory, and of those who followed Antonio Gramsci's identification of a Fordist phase of capitalism that was deemed to succeed the classic free-market form. This last idea flourished particularly in the French *régulationiste* school.<sup>1</sup> These approaches, different from each other though they are, all see some forms of capitalism superseding, and as therefore in some sense superior to, earlier modes. Hence these are not theories of a true diversity in the sense of a continuing multiplicity of forms, the historical superiority of any of which might never come to an issue. Analysts willing to adopt a less historicist approach have been rarer. The modern *locus classicus* was Andrew Shonfield's work,<sup>2</sup> which examined the role of various institutions surrounding the economy – various branches of the state, banks, stock exchanges – in a number of Western European countries, the United States and Japan. Although he thought some were more efficient than others – in particular, he was impressed by those that inserted some elements of planning into otherwise free markets – he did not talk in terms of historical transcendence.

When more theoretically inclined political scientists and sociologists returned to considering economic questions in the 1980s, they resumed Shonfield's concern with national politico-economic systems and hence national varieties of capitalism. Occasionally sub-types would be recognised within a national economy (mainly with regard to Italy and Spain), but these sub-types have nearly always been geographically subdivided, so the concept of territorially based economies has been retained. This does not mean that each nation-state has been seen as embodying its own unique form of capitalism; rather, national cases are grouped together under a small number of contrasted types.

This literature has many achievements. It has provided an intellectual counter-weight to easy arguments about globalisation, which predict an inevitable trend towards similarity among the world's economies. Neoinstitutionalist accounts of diversity have provided both theoretical arguments and some empirical demonstrations to suggest that these may be great oversimplifications. However, if we are to model the diversity of economic institutions more scientifically, and particularly if we are to study institutional change and innovation, we need to deconstruct

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the wholes that contemporary institutionalism takes for granted and discover their constituent elements – elements which are able to survive in combinations other than those thus identified.

Acceptance of the value of taking this approach would have considerable implications for the future study of capitalist diversity. It has in particular a major methodological consequence: empirical cases should be studied, not to determine to which (singular) of a number of theoretical types they should each be allocated, but to determine which (plural) of these forms are to be found within them, in roughly what proportions, and with what change over time. This alternative is less ambitious than the current fashion, in that it does not enable us to map the economic world with a few parsimonious categories. But it is also more ambitious, partly because it corresponds more closely to the requirements of scientific analysis, but also because it is able to accommodate and account for change taking place within empirical cases. This is something which most of the neoinstitutionalist literature on capitalist diversity finds difficult to do, leading to the functionalism and determinism of much of its analysis.

The aim of the present article is to develop this critique of the existing literature, to highlight some promising recent trends and to point towards the new approach indicated above. This last, which involves first deconstructing into constituent elements and then being ready to recombine into new shapes the aggregated forms of currently dominant analyses, is developed more fully elsewhere.<sup>3</sup>

### **Pitfalls in the formulation of types**

The smallest number of theoretical types consistent with the idea of diversity is two. For almost all writers on models of capitalism, one is always the free-market model of neoclassical economics. This constitutes the principal intellectual antagonist for neoinstitutionalists, even when they argue that it accounts for only a highly specific form of capitalism.<sup>4</sup> There must be at least one other form to make a theory of diversity: hence dichotomies. At the other extreme there is no theoretical limit to the number of forms that might be identified, but theories rarely propose more than five or six. Given the relatively small number of empirical cases of advanced capitalism for those tied to a national case approach (currently around 25), it is difficult to sustain more than a handful of types without lapsing into empiricism.

The work of Michel Albert, who made the original contribution to dualistic analysis, is typical.<sup>5</sup> He modelled two types of capitalism, which were seen in an antagonistic relationship. They are labelled in geocultural terms as Anglo-Saxon and *rhénan* (Rhenish). The former defines free-market capitalism, considered to be embodied in the Anglophone countries.<sup>6</sup> The second takes its name from certain characteristics considered to be common to the riparian countries of the Rhine: Germany, the Netherlands, Switzerland, more problematically France. However, not only is the author uncertain whether France's institutions fully belong to this type (an anxiety which was one of his main motives in writing the book), but Japan and Scandinavia are considered to be part of it. The broad institutional range gathered together to form this second type is disconcerting. The essential idea is a capacity to make long-term decisions

that maximise certain collective rather than individual goods. But this means ignoring differences among the very diverse forms of collectivism found.

It is important to note that this dualism in the identification of types of economy parallels the debate between political philosophies – neoliberalism and social democracy – which lies behind the analysis and behind most contemporary political debate.<sup>7</sup> This has created some confusion over whether neoinstitutionalism's confrontation is with neoclassical economics, and therefore at the analytical level only; or with neoliberal politics, implying an ideological confrontation; or with all political practices associated with the anti-Keynesian and pro-capitalist forces which came to prominence during the period.

One form taken by both the scientific and the ideological debate has been dispute over which kind of capitalism delivers the best economic performance. As David Coates showed in his study of models of capitalism, this has been an extraordinarily difficult issue to resolve.<sup>8</sup> He unravelled the complexities of the components of economic growth and other indicators of performance, in particular pointing out the importance for comparative studies of where national cases have stood at particular moments in relation to the overall evolution of the world capitalist system. He showed how it had been a mistake for institutionalists to seize at various times on particular national examples as proving the superiority of economies not based on pure markets: the models selected had a tendency to start to underperform. Analysts have been on stronger grounds when making either a weaker or a different claim. The former is that various kinds of institutional economy can do just as well as (not necessarily better than) a pure market one; the latter is the argument that institutional economies enabled the coexistence of high levels of economic performance alongside the pursuit of certain other social goals (for example, a relatively egalitarian incomes distribution) not readily available to purer market economies.

Neoclassical analysis considers how economic actors would behave if a world of perfect markets existed. It usually but not necessarily incorporates the normative assumption that both economy and society would be improved were institutions to take this form, but neoclassical economists are at liberty to consider that this may not always constitute a practical proposition; they are not bound by their analytical approach to any particular policy conclusions, or to consider that the world in reality takes a certain form. It is neoliberalism which, as a political creed rather than a form of analysis, not only definitely adopts a positive normative evaluation of markets, but also believes that they could always be introduced in practice.

But in practice not even neoliberals do this. A by-product of the ideological dominance of neoliberalism since the 1980s, and in particular its association with the most powerful nation-state on earth – the United States – has produced a tendency among even serious analysts to assume that certain practices and institutions constitute part of the neoliberal paradigm just because they are found in the US. The characteristics of the neoliberal model are derived from empirical observation of what is thought to be its main empirical example. But it is logically impossible to derive the characteristics of a theoretical category from the characteristics of an example of it, as the theoretical characteristics have to be known before a case can be considered to be such an example. For example, an extremely

powerful, scientifically oriented military sector, tying a number of contracting firms into close and necessarily secretive relations with central government departments, is a fundamental attribute of the US economy, and central to much of its innovative capacity in such sectors as aerospace and computing. The operation of such a military sector has nothing to do with the principles of either neoclassical economics or neoliberal politics. Analysts respond to this in two ways. Some just ignore the existence of this sector and its special characteristics in their account of the US economy. For example, the Organisation for Economic Cooperation and Development (OECD) felt able to describe the US as a country lacking any close support from government for industry.<sup>9</sup> Alternatively, it argues that the defence sector is somehow part of the US 'liberal' model, without noting the difficulties of such an assumption.<sup>10</sup> Indeed, as Campbell and Pedersen argue, at the practical level neoliberalism has not been the monolith that both its advocates and opponents set it up to be.<sup>11</sup> Within it have been contained a diversity of practices, some not particularly coherent with others. Kjær and Pedersen point, for example, to clear differences from the normally presented model in the form taken by so-called neoliberalism in Denmark,<sup>12</sup> whilst King and Wood have even demonstrated significant distinctions between the neoliberalisms of the United Kingdom and the United States in the 1980s, two cases normally seen as joint paradigms.<sup>13</sup>

The collection of studies edited by Peter Hall and David Soskice under the name *Varieties of Capitalism* represents the most ambitious and significant contribution to date of the dualist approach.<sup>14</sup> It draws much from Albert, though it barely acknowledges his contribution. Their book has become the emblematic citation for all studies of diversity in capitalist economies. It is also an example of the preoccupation of many neoinstitutionalists with coming to terms with and, in this case, eventually becoming absorbed by, an idealised version of neoliberalism. It seeks not only to allocate every developed capitalist economy to one or other of two categories, but derives from this account a theory of comparative advantage and a list of the kind of products in which the country will specialise.<sup>15</sup> This is achieved with the aid of certain assumptions concerning what constitutes radical and what incremental innovation – a characteristic which is considered to differentiate whole classes of goods and services. It is this factor, combined with its use of this sectoral analysis to account for certain important developments in different national economies during the 1990s, which has made the account so appealing.

Despite some ambiguity about a possible third model, these authors work with an essentially dualist approach along the rationale outlined above. They specify, first, a liberal market economy (LME) identified with neoliberal policies, radical innovation, new sectors of the economy and the Anglophone countries (Australia, Canada, Ireland, New Zealand, the United Kingdom, but primarily the US). Germany is at the centre of a second type, called a coordinated market economy (CME), where social and political institutions engage directly in shaping economic action. This form is linked to social democracy, incremental innovation, declining economic sectors and non-Anglophone countries.

It is odd that the core linguistic uniting characteristic of the LMEs, the only generalisation that really works, is never actually discussed as such. More aware of

Irish sensitivities than most authors, Hall and Soskice always talk of ‘Anglo-Saxon and Irish’ economies. But, perhaps because like others they resist the far simpler and more accurate ‘Anglophone’, they miss some serious potential implications of this. For example, one of the most impressive pieces of evidence cited by them to support their contention that radical innovation is concentrated in LME countries and only incremental innovation in CMEs is work carried out for them on patent citations.<sup>16</sup> This reveals a strong statistical tendency for patents taken out in Anglophone countries to cite scientific sources, while those taken out in continental Europe and Japan tend to cite previous patents or non-scientific sources. The six leading countries out of 18 studied are all Anglophone (headed by Ireland). *Prima facie* distinction between radical and incremental innovation does seem to be well proxied by that between academic and product citations, and one can see this being related to the character of research in firms, research centres and universities. But it is also possible that firms in Anglophone countries are more likely to cite articles in the overwhelmingly Anglophone literature of global science than those in other countries. Further, liberal market economies are largely defined by their having characteristics determined by common law traditions; these also encourage the use of patenting of innovations to a greater extent than civil law systems. Therefore higher levels of patenting – as a legal device, not necessarily a reflection of actual innovation – will be most widespread in common-law, and hence liberal market, systems. This distortion may help explain why, according to Estevez-Abe, Iversen and Soskice, New Zealand has more radical technological innovative capacity than Germany, Sweden or Switzerland.<sup>17</sup>

The LME type of economy depends on labour markets that set wages through pure competition and permit very little regulation to protect employees from insecurity, and on a primary role for stock markets and the maximisation of shareholder value in achieving economic goals. Such an economy is considered by the authors to be poor at making minor adaptive innovations, because employers make inadequate investment in employee skills which might produce such innovations; but it excels at radical innovations, because the combination of free labour markets and external shareholders makes it relatively easy to switch resources rapidly to new and profitable firms and areas of activity. A CME, featuring corporatist wage-setting, strongly regulated labour markets and corporate financing through long-term commitments by banks, follows exactly the reverse logic.

Hall and Soskice stress strongly that they are depicting two *enduring* forms of capitalism, because each has different comparative advantages. However, those of the CME form are located solely in minor adaptations within traditional and declining industries, while LMEs have assigned to them all future-oriented industries and services sectors. In the end, therefore, this is a neoinstitutionalism that fully accepts the logic of neoclassicism set out above: in the long run, all institutions other than the pure market fail to cope with the future. Since these different forms of capitalism are considered to have been the products of historical *longues durées*, it also means that the German economy never was radically innovative in the past, which requires explaining away many past events in the economic history of such German industries as chemicals, machinery, steel and motor vehicles when these sectors were at the forefront of technological advance.

This brings us to a further fundamental point: typologies of this kind are fixed over time; they make no provision for changes in characteristics. As Zeitlin puts it, approaches like that of Hall and Soskice render learning almost impossible. Or, as Bertoldi says, they ignore any impact of change in the world economy and make no allowance for evolutionary development. As Hay has it, this literature tends to take either a spatialising approach (the elaboration of models, as in the cases we are discussing here) or a temporalising one (identifying historical phases, and therefore probably giving more scope to actors' capacity to change, but ignoring synchronic diversity). It is not necessary for neoinstitutionalist analysis to be as rigid as this.<sup>18</sup>

Hall and Soskice also assume automatically that all innovation within new industries represents radical innovation, while all within old ones can represent only incremental innovation. This is because they use different sectors as proxies for different types of innovation. According to such an approach, when Microsoft launches another mildly changed version of Windows it still represents radical innovation, because information technology is seen as a radical innovation industry; but, when some firms eventually launch the hydrogen-fuelled motor engine, this will only be an incremental innovation, because the motor industry is an old industry. Further, the authors do not confront the leading position of two clearly CMEs (Finland and Sweden) in new telecommunications technologies and the Nordic countries generally in medical technologies.<sup>19</sup> Robert Boyer has shown that the institutional pattern found in the Nordic countries can favour high-technology growth in information and communication technologies as much as the Anglo-American one. This is completely lost in accounts that insist on dualism and an *a-priori* allocation of institutional patterns.<sup>20</sup> Instead of the *a-priori* paradigm case methodology, Boyer used Charles Ragin's Boolean techniques to derive institutional patterns empirically.<sup>21</sup> Boolean algebra assigns category values (not interval ones) to the mass of characteristics that constitute a whole. Individual characteristics are identified as either present or absent. This enables a search for shared characteristics in a number of complex empirical cases, assisting the researcher to determine which characteristics tend to be found together, and which are rarely or never associated.

A further serious flaw in the *Varieties of Capitalism* approach is that it misunderstands the work of individual innovative companies. While engaging in radical innovation, firms usually also need to bring out products with minor improvements in order to sustain their position in markets while they wait for a radical innovation to bear fruit; but, according to the Hall-Soskice model, it is not possible for firms within an LME to succeed at incremental innovation. It is a major advance of the approach that they focus on the firm as an actor, rather than take a macroeconomic approach to the study of economic success. However, many of the advantages of this are vitiated by the fact that their model allows the firm virtually no autonomy outside its national macroeconomic context.

These authors further follow conventional wisdom in arguing that the superiority of American (or Anglophone) firms over German ones results from the fact that in the Anglophone countries all managerial power is concentrated in the hands of a chief executive officer (CEO) who is required to maximise shareholder value, with employees engaged on a hire-and-fire basis with no representative channels

available to them. Here they are failing to distinguish between the firm as an organisation and as a marketplace. By seeing the CEO's power as being solely to maximise share values by the use of a hire-and-fire approach to management, they are able to present the firm in an LME as solely the latter and not as an organisation. They can therefore dispense with the knowledge accumulated in the theory of the firm, which distinguishes between market and organisation, and presents at least the large firm as an organisation with personnel policies, and with management having a wider range of discretion and possibilities than just maximising share values.

This is significant. In reality firms differ considerably in the extent to which they construct organisational systems, internal labour markets and distinctive ways of working, even developing specific corporate cultures, rather than simply establishing themselves as spaces where a number of markets intersect. For example, a firm that develops a distinctive approach to work among its workforce as part of its competitive strategy cannot depend on a hire-and-fire personnel policy. Employees need to be inducted into the firm's approach and are likely to demand some understandings about security if they are to commit themselves in the way that management wants. Rapid hire-and-fire meets neither of these needs. This fundamental difference in corporate strategy has nothing at all to do with differences between LMEs and CMEs; both can exist within either, particularly the former. Neglect of the firm as an organisation is thus a weakness of much neoinstitutionalist analysis. It is caused by the obsession already noted with a dichotomy between two mutually incompatible politico-economic ideologies, a dichotomy in which the distinction between firm and market is not at issue. At times Hall and Soskice seem to regard the organisational structure of the firm (or corporate hierarchy) as a characteristic of both LMEs and CMEs, and therefore an irrelevant variable - though it should be conceded that the relevant passage is worded ambiguously, as follows:

All capitalist economies also contain the hierarchies that firms construct to resolve problems that markets do not address adequately . . . In liberal market economies, these are the institutions on which firms rely to develop the relations on which their core competences depend.<sup>22</sup>

They seem here to be building into their model a functionalist balancing item, implying that hierarchy will exist to the extent that it can 'resolve problems'. In that case, why does their theory not build into the features of both LMEs and CMEs those that they would respectively need in order to have them cope with the kinds of innovation that their theory says is impossible for them? At the level of type-building one should not pick and choose which institutional features automatically receive compensation and which do not. As Weber originally formulated the concept, ideal types are 'one-sided accentuations', pressing home the logical implications of a particular kind of structure. The aim is not to provide an accurate empirical description, but a theoretical category, to be used in the construction of hypotheses. Again, the authors are not building their theory deductively, but are reading back empirical detail from what they want

to be their paradigm case of an LME – the US – into their formulation of the type. It is simply not possible within their methodological approach to ask the question: is everything important that occurs in the US economy the embodiment of free markets?

Hall and Soskice do briefly consider diversity within the CME form. Apart from Germany, they also see Japan, Switzerland, the Netherlands, Belgium, Sweden, Norway, Denmark, Finland and Austria as unproblematic – though differences between what they call ‘industry-based’ coordination of the German type and ‘group-based’ coordination found in Japan and Korea are recognised.<sup>23</sup> In an earlier work Soskice fully recognised these two distinct forms of CME: a northern European model, and the ‘group-co-ordinated’ East Asian economies.<sup>24</sup> (‘Northern Europe’ is here defined by Soskice to include Italy but not France.) But not much is made of the distinction in the full development of theory or cases.

A ‘Mediterranean’ group (France, Italy, Spain, Portugal, Greece and Turkey) is also given some recognition. Like Albert before them, Hall and Soskice accept that France is somehow different, and consider that a so-called southern European group (including France) probably constitute a third, state-led, post-agrarian model.<sup>25</sup> This at least makes matters more differentiated, although it produces a type curiously unable to distinguish between the French state and the Italian or Greek ones. Sometimes this ‘Mediterranean’ group is seen as being empirically poised somewhere between the LME and CME model, which enables the authors to insist that LME and CME remain the only points which require theoretical definition. But elsewhere the Mediterranean countries are treated as examples of CMEs; Thelen, for example, treats Italy as almost unambiguously a ‘German-type’ ‘co-ordinated’ economy.<sup>26</sup> One of the starting points of the model was an earlier paper by Soskice criticising the Calmfors and Drifflin model of wage bargaining.<sup>27</sup> This model had contrasted economies with centralised and decentralised collective bargaining arrangements, classing the French, Italian and Japanese among the latter. Soskice pointed out that, although these three countries were not as coordinated as Germany or Sweden, one could identify within them various mechanisms that ensured some coordination of wage bargaining. He found (within the sample of countries being considered) that only the UK and the US lacked such mechanisms; therefore all other cases were classified as CMEs. Both here and in Hall and Soskice, the basic drive of the dichotomy is to confront the neoclassical model with a single rival type.

### Beyond dichotomies

Some contributors to the study of capitalist diversity have gone beyond dichotomies. Vivien Schmidt has three models of European capitalism: ‘market’ (very similar to the LME model), ‘managed’ (with an ‘enabling’ state that encourages economic actors to cooperate, more or less the CME model) and ‘state’ (an interventionist state of the French kind).<sup>28</sup> The last is designed to remedy the neglect of this form by Hall and Soskice. Acknowledging that the role of the state has declined considerably in France in recent years, she points out that its background role and historical legacy remain of considerable importance in enhancing national economic capacity. But, indeed, much the same could be said of the US state,

whose role in the vast defence-related sector could well be defined as ‘state enhancement’ of economic capacity. Schmidt also manages to be sensitive both to change and to its *timing*.<sup>29</sup> She studies how countries embodying each of these types respond to the challenges of globalisation and Europeanisation. A central hypothesis is that these challenges do not lead to simple convergence. Governments of the various countries have responded in complex ways, producing new forms of diversity. If there is any overall convergence, it is mainly towards a loss of extreme characteristics and thus some sharing of attributes from the various models. And these diversities are full of interesting paradoxes: the UK, having had in many respects the weakest economy of the three, was thus the earliest to be forced to come to terms with the pressures of globalisation. As a result, it now appears better prepared to face that challenge than Germany which, being initially the strongest economically, could delay adjustment.

A second hypothesis fundamental to her study is that political discourse has been particularly important in shaping national responses to the challenge. By this Schmidt means, not just that different substantive discourses were adopted, but that these took different forms. She distinguishes between ‘communicative’ and ‘coordinating’ discourse forms. The former, more suited to centralised systems like the British and French, inform the public of what needs to be done; the latter, more typical of Germany, is used to develop consensus among powerful actors who cannot be controlled from the centre. This work therefore marks a refreshing shift towards an actor-centred and non-determinist account. Schmidt by no means discounts the existence of very strong structures, within which her actors need to operate. But these are malleable by innovative actors, in particular by politics. She criticises particularly effectively the oversimplified accounts that characterise much rational choice work in international political economy. This, she argues, is a curiously depoliticised form of study of politics, assuming as it does that the interests of nation-states can be modelled in a straightforward way, with fixed, consciously held preferences. She demonstrates effectively how governments in the three countries of concern to her study developed very varied positions in relation to Europeanisation: for example, the UK was quickest to respond to many of the single market initiatives, but slowest to the single currency. This can all be explained, and she provides good explanations, but these require tactical and historically contingent political actors.

But Schmidt still follows the practice of identifying empirical cases as standing for ideal types. This is unfortunate, because her own actual practice is well able to cope with the implications of seeing cases as amalgams of types: her actors are creative political schemers, looking for chances to change and innovate, not automata acting out the parts the theorist has set for them. And, as noted, she succeeds in showing how over time individual countries have moved around the triangular space which her particular model of types of capitalism allows them.

Several other authors present three or more forms of capitalism, or of elements of capitalism, nearly always retaining a geocultural approach. Gøsta Esping-Andersen’s analysis of different types of welfare state embodies variables relating to the outcomes of political struggle, or dominant political traditions, which avoids some of the functionalist implications of the *Varieties of Capitalism* model.<sup>30</sup> Again, one starting point is free-market or liberal capitalism associated with the

Anglophone group of countries, and another is Germany, producing a conservative ‘continental European’ model. There is, however, a third, social-democratic pole, geographically associated with Scandinavia. Critics of Esping-Andersen’s model have concentrated: on identifying mixed cases (Castles and Mitchell); on stressing how the treatment of women in different systems does not seem to correspond to the simple typology (Daly); or on breaking up the over-extended ‘conservative continental’ category. A fourth type has now been clearly established, separating southern European welfare states from this one on the basis of their particularly large role for the family (Naldini) and other informal institutions (Ferrera). Ebbinghaus, concentrating on policies for combatting early exit from the labour market, which he sees as deeply related to the form of the overall welfare regime, adds a fifth type based on Japan. All these works continue to depend on the characteristics of paradigm cases, which can be highly misleading. For example, Viebrock, in a study of different forms of unemployment benefit systems, has shown how Sweden – usually the absolute paradigm case of social democracy – has for reasons of political history retained a role for voluntary associations alongside the state in the organisation of its unemployment insurance system.<sup>31</sup>

A strong move away from dualism, which neither starts from nor privileges the free-market model, is the scheme of Richard Whitley.<sup>32</sup> He builds up a set of fully sociological models of capitalism based on six types of business system (fragmented, coordinated industrial district, compartmentalised, state-organised, collaborative, and highly coordinated), related to a number of different behavioural characteristics.<sup>33</sup> He also presents five different ideal types of firms (opportunist, artisan, isolated hierarchy, collaborative hierarchy, allied hierarchy)<sup>34</sup> and a diversity of links between these types and certain fundamental institutional contexts (the state financial system, skill development and control, trust and authority relations).<sup>35</sup> Significantly, Whitley’s main fields of study are Japan, Korea, Taiwan and other Far Eastern economies, rather than either the American or the German cases, and he is therefore further removed from the obsession with neoliberalism and a contrast between it and a model of ‘organised capitalism’ that sometimes distorts the analysis of those who concentrate on Western Europe and North America.

By far the best and most sophisticated approach to a ‘post-dualist’ typology of capitalism to date is that established by Bruno Amable.<sup>36</sup> He collected quantitative data on a vast range of characteristics of the national economies of most OECD countries: product markets, labour markets, financial systems and social protection. He uses literally dozens of individual indicators to assess each. He then allows a typology of groups of countries to be formed empirically by these data; he does not start from paradigm cases. This procedure gives him five groups, which, as with other authors, fall into familiar geocultural patterns: market-based (primarily Anglophone), social democratic (Nordic), Asian (Japan and Korea), Mediterranean (southern European) and Continental European (continental Western European less the Nordic and Mediterranean countries). He further finds (as have others<sup>37</sup>) that this last group does not show much internal coherence, and for some purposes splits it further into two sub-groups: one comprising the Netherlands and Switzerland, the other Austria, Belgium, France and

Germany. Moreover, Amable is not afraid to draw attention to further diversity for some of the characteristics, with the result that countries do not always figure within their normal group.

At times Amable lapses from his finely nuanced stance. For example, the book ends with a future- and policy-oriented dialectic between the market-based and a simplified and generalised Continental European model.<sup>38</sup> It seems that engaging in the rhetoric of debate about the future course of capitalism leads always to dualism, even when, as in Amable's case, the best strength of the author's position lies precisely in the demonstration of a far more differentiated world. He also depends necessarily for his data on sources like the OECD which are often constructed with in-built biases. For example, although at one point Amable acknowledges the importance of military-related research and production in many of the high-tech sectors of the US economy, he follows the OECD in excluding all consideration of this from the indicators of the role of the state in the economy and of the regulation of external trade.<sup>39</sup> These minor criticisms apart, Amable has demonstrated that a genuinely scientific approach, using very extensive and diverse kinds of data, produces a useful and coherent typology comprising five or six types, at the same time enabling clear recognition of exceptions within types.

Dichotomisers will argue that they are applying the principle of parsimony and Occam's razor to complex schemes of Amable's or Whitley's kind. They will claim that, while there is clearly a loss of information if one collapses Whitley's 'co-ordinated industrial district, compartmentalised, state-organised, collaborative, and highly co-ordinated' mechanisms into the single idea of a CME, that idea seizes on the essential point that divides all these forms from the pure market one: coordination. But, as Scott and Hay have separately argued, parsimony must not become an excuse for inaccuracy and ignoring important diversity.<sup>40</sup> Is coordination the fundamental attribute of all the types in Whitley's list? On what grounds could this quality be regarded as more fundamental than the other characteristics which divide them, especially since the coordination takes place at very different levels? Recent developments in the governance approach draw attention to the role of collective competition goods provided by various governance modes in local economies, without demonstrating anything remotely strong enough to be called national 'coordination'.<sup>41</sup> This suggests the possibility of analyses more moderate than those addressed at the whole macro-economy.

Meanwhile, Hage and Alter have convincingly demonstrated analytical distinctions among several institutional forms.<sup>42</sup> In that case, to apply Occam's razor to reduce them all to one idea of coordination is to cut into serious theoretical and empirical flesh. An explanation becomes more parsimonious than another when it uses a smaller number of explanatory variables *while explaining at least as much* as its opponent. For example, it is more parsimonious to model the solar system as heliocentric than terracentric, because the former uses far simpler mathematics to account for at least as many planetary movements as the latter. We should be far less impressed with the heliocentrist if she had to say: 'Forget about the outer planets; this theory is more parsimonious because it just looks at the inner ones'. But contemporary social science often makes use of precisely

this kind of argument, using the idea of parsimony as meaning a kind of rough, tough macho-theory that concentrates on the big picture and ignores detail.

As Whitley's formulations demonstrate, the relationships between different forms and different behavioural characteristics present a varied patchwork of similarities and differences, not a set of polar contrasts. This suggests in turn the fundamental point: that individual empirical cases might well comprise more complex amalgams still of elements from two or more theoretical types. Whitley himself treats a fragmented market model of economic organisation separately from one dominated by large firms, and is therefore able to see the US itself as a hybrid of two different forms of capitalism rather than a pure case. This question has considerable practical implications, which are discussed more fully elsewhere.<sup>43</sup> It is often recognised by authors who speak of 'hybrid' forms. For example, Schmidt suggests strongly that some changes in French institutions are making that case increasingly a hybrid, with borrowing from Germany as well as from neoliberal sources.<sup>44</sup> Jackson suggests that hybridisation, as opposed to simple imitation of the exogenous, is the usual outcome of attempts at 'borrowing' institutions, even under extreme periods of transition, such as Germany or Japan under postwar occupation.<sup>45</sup> Other researchers have shown the power of hybrid cases in achieving important reforms in welfare state organisation.<sup>46</sup> Zeitlin discusses various national cases that have become exceptions to their 'types' as the result of mixing institutional forms at the initiative of what I would call institutional entrepreneurs. Considering an earlier period, Windolf discusses how French family capitalism played an important part in the country's postwar modernisation, merging with advanced financial means of control and the strong state to produce a dynamic new model. 'Hybridisation' deals with only one way in which cases may deviate from types, and it is still very close to the idea of clear, macro-level types, because it sees these as the source of the hybridisation. However, it does constitute an important challenge to simple equations of cases and types.<sup>47</sup>

### **Questioning the centrality of the nation-state**

The centrality of the nation-state in most typologies of capitalist diversity also needs to be questioned. This centrality is found in most neoinstitutionalist studies, including those on 'social [that is, national] systems of innovation and production'.<sup>48</sup> It is also central to work from the parallel but distinct literature on 'national systems of innovation'.<sup>49</sup> At one level the case is well made. Very extensive elements of governance in the industrial and post-industrial societies of which we have knowledge do operate at the level of the nation-state: states have been the main sources of law, and most associations and organisations target themselves at the state.<sup>50</sup> Given that markets are framed by law, this means that, of the modes of governance usually discussed in governance theory, the state itself (obviously), markets and various levels of associations are all heavily defined at national level, while community and informal associations exist at a lower geographical level. Even research that explicitly works at comparisons between regional or other substate geographical levels often has to acknowledge the importance of

the nation-state as a major instance for the determination of socioeconomic variables.<sup>51</sup>

But many macro-level neoinstitutionalists go further than this and postulate virtually hermetically sealed national institutions – often because they are concerned to address debates about economic and social policy, and these are mainly conducted at national levels. Radice argues that this has perhaps been particularly the case for left-of-centre analysts desiring to ‘bring the state back in’, leading to an exaggeration of the importance of national policy.<sup>52</sup> More generally, neoinstitutionalists are led to stress the nation-state by their functionalist assumptions, which model discrete, autonomous systems, each equipped with their sets of institutions, like a body with its organs. There are also methodological advantages in being able to treat nation-states as discrete units of analysis, as many economic data are produced at national levels. Theorists of the diversity of capitalism are therefore eager to play down the implications of globalisation, and argue intelligently and forcefully against the naive assumptions of much other literature that globalisation somehow abolishes the significance of national differences.<sup>53</sup>

However, the position of the nation-state as the definer of the boundaries of cases is not so fixed that it should be taken for granted *per definitionem*. This is particularly obvious with respect to multinational corporations. As Beyer shows,<sup>54</sup> large firms draw on resources from a range of different national bases; it is very difficult to identify them with particular national types and to see their institutional possibilities as being constrained by their country or countries of location. As Jackson puts it, national models of capitalism are becoming ‘institutionally incomplete’.<sup>55</sup> This seems particularly true where international corporations are concerned, but even firms that are nationally owned and operate primarily within one nation-state have access to knowledge, links and practices existing outside the national borders. Radice similarly criticises the national innovation system literature for a kind of mercantilism, arguing that it does not take adequate account of the fact that technology is always a public/private collaboration, and that the private actors are usually global firms. Something always ‘leaks’ abroad from national programmes; innovation is at once global and national.<sup>56</sup> He also points out the falsity of the dichotomy between so-called globalising and national forces, as though one could identify them and then establish their relative importance.<sup>57</sup> The phenomena associated with globalisation are brought about at the behest of domestic actors working to influence national governments. As Helleiner earlier made the point: internationalisation is not an independent variable, because it is an outcome of state policy.<sup>58</sup>

Radice demonstrates a different weakness of nation-state-based analysis by pointing out that all states are not equal as units.<sup>59</sup> The US is able to borrow to fund its deficits in a way not available to others, which means that comparing the ‘performance’ of that economy with others is not a true comparison of institutional capacities. One can move from that observation to point out that nation-states cannot always be treated as a series of unit instances of the same phenomenon; they are also linked together in a hierarchical way to form an overall system, as Wallerstein and other world-system analysts have showed.<sup>60</sup> For example, the units ‘Portugal’ and ‘France’ cannot be treated as equal units within which the effects of various independent variables can be independently

and comparatively assessed, because they are partly defined by their relationship to each other. Scott stresses the need to consider a range of levels: world system, society (nation-state), organisational field, organisational population, organisation and organisational sub-system.<sup>61</sup> As he points out, different disciplines tend to look at different components of this. Hollingsworth and Boyer are helpfully explicit that their scheme can be used at subnational and transnational, as well as national levels.<sup>62</sup> We need always to be able to ask: are arguments about the characteristics of national economies limited to specific economic sectors and industrial branches, or do they claim to apply to all? And how far beyond the heartland of the economy does the theory claim to range? If the nation-state is at the heart of the analysis, are political institutions also to be covered by the characterisation? Or does the theory apply even further, to structures like the welfare state, family or religion, for example? As we develop thinking of this kind, we soon come to see that the clear division between endogenous and exogenous that is so fundamental to nation-state-based theories becomes replaced by a continuum of accessibility.

### **Towards a new analytical approach: anticipating recombinant capitalism**

As noted at the outset, most contributions to the literature on the diversity of capitalism conflate theoretical models and empirical cases through a research strategy that seeks the unique theoretical box to which an individual case must be assigned. For example, Goodin *et al.*, while arguing that the US constitutes a pure type of ‘market’ welfare regime, acknowledge that 80 per cent of US social protection expenditure goes to social insurance schemes of a corporatist nature and not to the means-tested schemes associated with the market model.<sup>63</sup> However, because they consider that this is a smaller proportion than goes to such schemes in other cases, they claim that they are justified in regarding the US as a paradigm of the ‘pure’ market model. They do not consider the possibility that the corporatist elements of the welfare system might act complementarily to the market process in the US case, and that the US system might operate differently if it really was a pure market one. In fact, the differences that have been identified among neoinstitutionalist theories have major implications for how they relate theoretical models and empirical cases. There are broadly two ways of doing this: the labelling method and the analytical method. The two approaches are analogous to the two different forms of categorisation found on bottles of mineral water: first, the water is labelled as either still or sparkling – the water ‘is’, unambiguously, one or other of these types; second, there is set out a detailed chemical analysis of elements and compounds, traces of which can be found in the water – the water ‘contains’ these chemicals.

The neoinstitutionalist researcher following the labelling strategy inspects the characteristics of an empirical case and decides which of a limited number of theoretical models (ideally two) it most closely resembles. The case is then considered to be ‘an example’ of that model and labelled accordingly, all features of it which do not fit the model being considered as ‘noise’ and disregarded. A clear example is again the study by Goodin *et al.*, which takes three national cases as examples of three models, then reads back empirical features of these cases into the models. In defence of such procedures Hollingsworth claims that,

even if an individual society has more than one social system of production, one will dominate.<sup>64</sup> This is possibly true, but not only should it remain an hypothesis worth testing rather than an *a-priori* methodological assumption, but the role of ‘minor’ or hidden institutional forms can have major importance. By contrast, the researcher following the analytical approach considers to what extent traces of each of a series of models can be found within the case; there may be no conclusion as to which form it most closely resembles. Even if there is, that information remains framed in the context of the wider knowledge of its attributes. But it is also necessary to recognise weaknesses of the analytical approach. We rarely have in macrosociology or political economy measuring instruments of the kind at the disposal of the chemist analysing the mineral water. If we could say: ‘the Californian economy comprises x per cent pure market governance, y per cent basic state support and z per cent immigrant community dynamic effects’ – we would be saying something very significant. But we cannot; we can only say: ‘the impact of immigrant communities may be important as catalysts for innovation’. The analytical approach thus runs the risk of being wrong-footed as less ‘scientific’ by an alternative that presents a false scientific precision.

Labelling works best when there is only a limited number of models to which cases can be assigned, but these models embrace a wide range of institutions without worrying about excessive complexity. Conversely, the analytical method is most likely to be found among theories that accept a larger number of types but are less ambitious in their institutional coverage. These theories can best demonstrate their richness when showing how complex an individual case can be, and for that require a large number of models. They are therefore only really feasible when a limited number of institutions is being considered.

The strongest point of the labelling approach is its clarity. The designation of still or sparkling is always far more prominent on the water bottle than the detailed chemical analysis, and it is the only information in which most consumers are interested. Likewise, policy makers, investors and other users of social research into forms of capitalism probably want to know simply: ‘is this economy like the US or like Germany?’ The labelling model is also of particular value when measuring instruments are crude. We do not have finely tuned ways of measuring elements within a national economy; but we might be able to say what an economy is more or less ‘like’ – in other words, which simple model does it most resemble?

An analytical approach, in contrast, is able to depict the actors within its cases as confronting an empirical complexity made up of elements of a number of models. A number of recent studies suggest that authors are becoming more willing to accept the degree of complication and apparent incoherence that this implies.<sup>65</sup> If these actors are institutional entrepreneurs, then, unlike the actors within a game theory, they can be presented as having the capacity to try to combine these elements in new ways, making use of serendipitous redundancies embedded in the empirical incongruences of their situation. As theorist and real-world actors interact, the former may be able to develop new theoretical cases out of the recombinant institutions produced by the more successful of these attempts. The two approaches present opposed logics of research. What is noise for the labelling approach becomes grist for the mill of explaining what actors can do for the analytical approach. A high degree of diversity within a

case, a problem for labelling theory, becomes for an analytical theory a crucial independent variable for explaining capacity for change. Under the conditions of early twenty-first century capitalisms there is not a question of whether an economy will change, but how it is doing so. The accurate study of this situation surely requires a shift from the labelling to the analytical strategy.

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6. It has become routine to use the term 'Anglo-Saxon' here, but it is problematic. It was developed originally to group together the collection of peoples of English, German and Scandinavian origin who inhabited England on the eve of the Norman invasion of 1066; it served to contrast them with both the French-speaking (though originally Scandinavian) invaders and the Celtic inhabitants of other parts of the British Isles. Such a term became useful over 800 years later to distinguish the British and other northern European (and by now primarily Protestant) inhabitants of the late 19th century US from more recent Latin-language-speaking and Irish immigrants, and by extension also from Poles and other Catholics as well as from black people and Jews. Its contemporary use by academic social scientists, as well as international organisations like the OECD, seems not only blithely ignorant of these connotations, but also commits the solipsism of using it mainly as a contrast with Germany – which includes the Saxon half of the mythical Anglo-Saxon identity. Its contemporary use also normally includes Ireland – a people explicitly excluded from both the original and subsequent US terms. It is, in fact, used entirely consistently to identify that group of countries where English is the dominant language and the majority population is white-skinned: the UK, Ireland, the US, Canada, Australia and New Zealand. The correct, unambiguous term, which precisely identifies this group of countries is 'Anglophone', and one wonders why this clear and accurate term is not used instead of the more popular, exotic but highly dubious alternative. To insist on this point is not pedantry, but draws our attention to certain possible implications of the fact that the economics literature which finds it far easier to make sense of the Anglophone economies than others is itself almost solely Anglophone.
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