Varieties of Capitalism, Varieties of Approaches

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David Coates
policy agenda or are subject to the neoclassical takeover, stripping them of their insight and relevance (a prominent example is the attempted takeover of geography creating the vacuous ‘new economic geography’).

This chapter opened by recalling a note of optimism that was written more than 70 years ago – it ends with some pessimism that modern orthodox economics can contribute much to understanding the ‘economic problem’. If economics is going to contribute to understanding the varieties of capitalism, it must embrace the important insights from alternative paradigms and from other disciplines. It must also be recognised by economists – and more importantly by policymakers – that the pursuit of faster economic growth and higher GDP may not increase prosperity and well-being.

**Note**

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**Beyond Bone Structure: Historical Institutionalism and the Style of Economic Growth**

_Cathie Jo Martin_

Explaining economic growth is a bit like trying to account for beauty. Beyond the obvious ‘chacun à son gout’ is a debate about what really matters. While neoclassical economists (and their esthetic equivalents) might argue that bone structure is everything, historical institutionalists might insist that growth (like beauty) reflects a certain sense of style. Indeed, institutionalists bring into the growth equation all sorts of factors neglected by their economistic colleagues; not least institutionally determined relations between employers and workers, patterns of cooperation among firms, systems of financing, and the opportunities or constraints created by the structures and policies of government. They do that because the succinct explanation for cross-national differences in growth rates, provided by historical institutional analyses, is that institutional divergence produces variations in economic performance. Institutions create incentives for firms to undertake certain types of strategies for economic production. The emerging differences in production processes lead to divergent policy outcomes. Although, in an ideal world, countries might be expected to converge on the best model, in practice institutional systems become entrenched. Because each model has its own sets of benefits and detriments, and of winners and losers, institutional configurations and path dependencies are difficult to alter.

Yet as this chapter will show, any such bipolar portrayal of historical institutionalists – as those who move beyond the bare bones of economic structure to search for the textural sources of growth – while demonstrating the approach’s general distance from mainstream economics, also does a disservice to the riches (and alas flaws) of the tradition. For historical institutionalists are a varied lot, dispersing widely along the structure/agency continuum. Some vest institutional structures with the sort of irrefutable logic that makes outcomes all but certain – here institutional determinism might be said to replace economic determinism. Others (stress the history part of historical institutionalism) view institutions
and policy legacies as constraining, rather than determining, individual strategy. Such analytic divisions among institutional scholars then influence individual views of growth trajectories: their distinctiveness, their amenability to change, and their ultimate functionality. They also produce variations (and arguably shortcomings) in such scholars' understanding and forecasting of economic growth. Paradoxically, in fact, historical institutional approaches suffer from problems of too much structure at one end of the spectrum and too little predictive power at the other: a varying predilection for structure and agency that hampers the ability of historical institutionalism as a whole to anticipate changes in (and the future direction of) economic growth. Historical institutionalism, as we will now show, has much to say about past patterns of economic performance but less to say about how those performances may be affected in the future by capitalism's perennial tendency to crisis.

**Breaking away from neoclassical economics**

Historical institutionalists stand apart from even the most sophisticated neoclassical economists in their more developed and nuanced understanding of the role of institutions in shaping economic growth. Scholars sympathetic to this approach argue that because an element of indeterminacy governs how individuals or nation states view their material conditions and seek to improve their economic circumstances, institutional influences have a profound impact on the development of individual strategies or policy vehicles for achieving economic expansion. Historical institutionalism as a broad intellectual tradition builds on the assumptions of institutional economics, and draws from social movement theory, economic history and political sociology. The early heroes of this discipline - not least Weber (1947) and Polanyi (1944) - remind us of a less materialist era with their integrated vision of political economy, their nuanced conceptions of the state, and their group-oriented views of a society governed by ruling passions as well as interests. Several key assumptions differentiate (broadly speaking) the historical institutionalist view from its intellectual competitors.

- First, an individual's interests cannot be derived automatically from his/her economic conditions because a range of potential preference positions are consistent with any material circumstance. Starting from an assumption of relative indeterminacy, historical institutionalists seek to identify the extra-economic factors that bring individuals or collectivities to align their fortunes with one set of actions over another.

- Second, institutions (and ideas) are important independent (or at least mediating) variables in the articulation of interests or preferences. Institutions, groups, and networks are critical to the cognitive processes that shape preferences, as they selectively expose members to new ideas and foster broader political identities (Granovetter 1985; Scott 1985; Touraine 1985; Snow, Rochford et al. 1986). Business associations, for example, have been shown to shape their members' preferences in addition to representing members' interests (Turner 1982; Grimm and Holcomb 1987; Martin 2000). Institutions privilege some sets of interests over others; for instance, by defining the rules of engagement in the public sphere, institutions make some policy solutions more plausible than others (Hall and Taylor 1996).

- Third, timing, sequencing and path dependencies shape interests (Pierson 1994; Orren and Skowronek 2004). As with Ray Bradbury's butterfly, dynamics set in place (perhaps fortuitously) at point 't will be causal at 't+1'. Choices made at critical junctures or points of political upheaval often lead to institutional arrangements and policy solutions that lock in subsequent choices (Skocpol 1985; Weir 1992; Pierson 1993). Thus scholars writing in this tradition view national economic and social initiatives as largely defined and constrained by the past.

- Fourth, strategic choice - especially on the part of state actors - plays a (varying) role in historical institutionalist theories. For example, far from unfolding according to a natural dynamic of their own, markets require institutional support for their creation and perpetuation; the invisible hand of the market is heavily guided by state regulations (Polanyi 1944). Thus, macro assumptions about markets parallel the micro insights about individual preferences - social construction is an essential ingredient and indeed, the institutions shaping markets create a set of incentives for individual actors to pursue certain types of economic strategies (Hall and Soskice 2001).

- Finally, these assumptions follow a recognition of diversity of national models of growth: institutions, strategies, and policies differ across broader institutional settings. These institutional arrangements and strategic choices may or may not be functional, as institutional development is often precipitated by contingent circumstance. Thus, the notion that countries will converge on the optimal institutional arrangements ignores both the permutations in origin of their systems and the institutional stickiness that reinforces institutional and policy trajectories.

This generic portrait of historical institutionalism obscures subtle distinctions pertaining to both the divergence of this broad approach with others and the varieties of analyses within the tradition itself. Hall and Taylor (1996) specified three types of historical institutionalism and Campbell and Pedersen (2001) added a fourth - rational choice, sociological, historical institutionalism, and discursive institutionalism - while Thelen (1998) has recently argued that the subtle distinctions between subfields are fading: that, for example, ever-expanding points of commonality between rational choice and historical institutionalism are weakening stereotypical distinctions. Rational choice
approaches once (rather predictably) fixed preference in material conditions, viewed institutions as functional, and sought universal theories rather than empirical truths; while historical institutionalism emphasized social construction, located institutional development in the historical contingencies, and used facts to generate (at best) mid-range theories. Yet both sides have pursued a strategy of ‘creative borrowing’ (Thelen 1998) and works today may be sorted along a continuum in their views of the relative indeterminacy of expressed preferences.

Rather than offering another mediation on the permutations of institutional theory, given these fine extant works (Hall and Taylor 1996; Immergut 1998; Thelen 1998; Campbell and Pedersen 2001), this chapter will focus on the lessons of historical institutional analyses for varieties of economic growth, on the methodological or empirical strategies that have been used to isolate institutional effects, and on the shortfalls of institutional analysis in capturing shifts in capitalist trajectories. The following sections offer examples of historical institutional efforts to account for variations in economic growth rates across countries, regions, firms, or points in time. It takes up in turn the studies of corporatism, American political development and varieties of capitalism (VoC), in an effort to examine how each accounts for variations in economic growth.

**Corporatism and the politics of association**

The first deeply influential wave of institutional analysis in comparative political economy was the study of corporatism as a system of business and labor representation. Puzzled that capitalist democracies with broadly similar economic systems had varying rates of economic growth, scholars turned to the organization of societal groups to examine how associational patterns shape societal inputs into the political process (and thereby influence public policy). Contrary to the literature drawn from neoclassical economics, with its tendency to see groups as barriers to growth, they quickly surmised that countries with corporatist business and labor organizations were better able, than those without, to reconcile social and economic goals and to develop public policies best suited to shifting economic conditions (Shorfield 1965; Schmitter 1981; Lembruch 1984; Katzenstein 1985; Esping-Andersen 1990; Soskice 1990a; Wilson 1990; Streeck 1992; Crouch 1993). The benefits of corporatism extended to several different features of social partners’ engagement with the governmental process: the organizational characteristics of the groups, the mechanisms for bringing the groups into the policymaking process, and the impact of the system on policy outcomes (Molina and Rhodes 2002).

The scholarship on corporatism suggested that institutional characteristics of business and labor organizations (such as scope, exclusivity, and degree of centralization) influence how these labor market partners engage in political processes and unity to achieve collective goals. The scholarship argued that corporatist associations are more centralized, more encompassing, less voluntary, and less competitive than their pluralist counterparts and therefore better able to promote collective action for shared goals (Schmitter 1981; Wilson 1990). Likewise, such scholarship argued that political deliberation should be of higher quality in social corporatist groups because the associations focus participants’ attention on broader, shared concerns. Members receive assurance that they will not be punished for committing to these broader goals because corporatist peak associations adjudicate among conflicting demands and bind firms to negotiated decisions. When peak associations include most firms in a country, members do not have the luxury of leaving and joining another group, should the association not satisfy narrow policy demands. Thus, so the corporatist literature suggested, encompassing groups are more likely to cultivate norms of trust and cooperation and to generate support for broad collective concerns than associations with a more narrow membership (Katzenstein 1985; Rothstein 1988; Streeck 1992; Putnam 1993; Visser and Hemerijck 1997).

On this argument, the benefits of corporatism extend beyond the characteristics of the groups, to the manner in which business and labor are brought into the policymaking process. In pluralist systems, social partners provide input primarily through the legislative process; however, in corporatist settings, they may also serve on advisory commissions of administrative governmental agencies and develop rules and regulations through the collective bargaining process (True 1992; Mosley et al. 1998). Moreover, iterative corporatist patterns of interaction create a positive sum game for business and labor in tripartite or collective bargaining settings: because the groups foster a long-term perspective and guarantee compliance, each side is more willing to take positions that will benefit the broader economy (Wilensky 1976; Streeck and Schmitter 1985; Crouch 1993; Hicks and Kenworthy 1998; Mosley et al. 1998).

Consequently, scholars of corporatism generally agree that countries with encompassing employers and labor organizations are more likely to produce collectively beneficial policy outcomes than those without such groups (Wilensky 1976; Streeck and Schmitter 1985; Kendix and Olson 1990; Crouch 1993; Hicks and Kenworthy 1998). In the area of economic performance, corporatist labor and employer associations with centralized systems of collective bargaining have been able to focus members’ attention on shared macroeconomic goals: for example, achieving wage and price restraints in exchange for stable employment and non-inflationary growth (Calmfors and Driffield 1988; Liiphart and Crepaz 1991; Henley and Tsakis 1992). Although much of the conventional writing on the welfare state held that weak or divided business led to greater social provision because strong employers defeat social initiatives (Castles 1978), the logic of corporatism suggests that well-organized managers are more likely to favor social programs that contribute to human capital and economic growth (Streeck 1992).
Groundbreaking work by scholars such as Skocpol and Skowronek sought to isolate how state structures shaped alternative paths to economic growth and social provision. Scholars of corporatism recognized the importance of the state in licensing interest groups and setting the rules for tripartite negotiations, but it was in American political development studies that state structures and actors rose to center stage. Indeed, the state was back in, initially including a subtext ambition of taking employers and other interest groups back out. State autonomy (or freedom from the interference of pressure politics) was viewed as essential to bureaucrats’ capacities to choose functional economic strategies and to choose wisely (Skocpol 1985).

According to scholars sympathetic to this strand of historical institutionalism, the state matters in several ways to cross-national differences in economic and social policies. First, the broad institutional structures of government (related to the separation of powers, relations between federal levels, and the number of veto points) define the degree to which governmental actors are insulated from interest group pressures (Skocpol 1985; Immergut 1990; Huber et al. 1993; Hacker and Pierson 2002). State structures demarcate internal governmental conflicts, as politicians and bureaucrats develop interests according to their intra-governmental institutional interests. When state actors, especially bureaucrats, are relatively insulated from interest group pressures, they have greater freedom to formulate policy in accordance with their separate goals and interests and tend to make more effective (and less political) policy decisions (Nordlinger 1981; Skocpol 1985).

So, for example, in the realm of economic policy, Steinmo (1993) argued that the decision-making structures (and veto points) in Sweden, Britain, and the US were for very different tax policy outcomes. The American fragmented system of political authority produced a complex and inefficient tax code, with considerable nominal progressivity but very little de facto redistribution. The rather insulated Swedish state structure delivered an elegant, simple system that included very flat rates (somewhat surprising, given the considerable power of organized labor) and an emphasis on consumption taxes, designed for investment and economic growth. Constitutional structures also have an impact on interest group organization. For example, countries with a highly fragmented state institutional structure tend to develop highly fragmented business organizations. In systems with multiple veto points, managers can try to influence policy until they find a sympathetic hearing. Alternatively, when access to government deliberations is limited, managers must discipline themselves to achieve success in their few opportunities for input and learn to work together to wield influence in the political arena (Coleman 1988; Martin 2000).

Second, policy legacies create blueprints for future economic and social initiatives and structure divisions among interest groups. Prior choices have policy ratchet effects, making future preferences about policy path-dependent. An adaption process makes individuals to feel comfortable with, and

American political development: bringing the state back in

Meanwhile, across, the Atlantic another provoking wave of historical institutional analysis was building in the subfield of American political development.

1992; Martin 2000). Swank and Martin (2001) found empirical evidence of this relationship between corporatist organizations and the welfare state. Scholars writing in this tradition also developed theories of sub-national variation. They found dynamics at the policy or sectoral levels that contradicted national patterns, while also confirming the corporatist insight that higher levels of organization yield more collectively beneficial policies (Wilks and Wright 1987; Coleman and Jacek 1989; Grant 1989; Soskice 1990a; Campbell et al. 1991; Hart 1992).

Finally, the scholarly literature on corporatism suggested that corporatist institutions enable employers to compete on the basis of higher value-added production strategies than those available to firms in pluralist countries. With a diversified quality production strategy, firms manufacture customized, quality-competitive goods that generate much higher profit margins. While mass production strategies entail few institutional supports and are thereby available to companies in institutionally poor countries, diversified quality production strategies can only be used in societies where institutions support cooperation and coordination. Corporatist business and labor associations foster the coordination that brings firms to share cutting-edge technologies, so necessary to these production strategies in the economic battle against foreign competitors. These corporatist groups are also said to foster the cooperation between labor and management that is essential to investments in productivity and human capital (Streeck 1992). The growth trajectories in these regulated economies are at least as impressive as those where capitalism is given freer rein (Califors 1990).

To summarize, scholars writing in this tradition believe corporatist institutions contribute to high growth rates more than pluralist ones by bringing business and labor to express broad support for policies aimed at fostering economic growth, even if they must forgo their narrow interests in obtaining particularist concessions from the state. The greater coordination and control achieved by economy-wide wage negotiations leads to better income policies: business and labor groups agree to restraints on wage and price increases. Tripartite channels lead to increased compliance with (and easier implementation of) economic and social programs that create the conditions for enhanced growth rates; thus firms and workers might be induced to invest in training programs that expand human capital and enable strategic investments in high value-added manufacturing sectors. Finally, firms can compete in higher value-added sectors when corporatist institutions enable the cooperation and coordination necessary to the production strategies of managed capitalism.
acquainted to, their national approaches to policy problems. Although economists urge us to write off sunk costs, prior investments make it psychologically hard to set out in new directions (Skocpol 1985; Weir 1992; Pierson 1994; Swank 2001). Path-dependent processes are more complicated than a simple closing of options, since policymakers retain a degree of political choice (Huber and Stephens 2001).

In the area of economic policy, Weir and Skocpol (1985) made a path-dependent argument to account for the different trajectories of Keynesian deficit spending in Britain and Sweden. Both countries experienced a collapse of the economy, driving desperate bureaucrats (well acquainted with Keynesian ideas) to lose faith in traditional theories of public finance. Yet while Swedish policymakers quickly embraced Keynesian macroeconomic policies and developed big public works projects, Britain delayed implementing Keynesian policies until after the Second World War. Weir and Skocpol (1985) attributed these differential responses to bureaucratic infighting and policy legacies from before the Great War. British Labour's attachment to a cash unemployment benefits system prevented experimentation with a more radical public works program because bureaucrats and party stayed true to their past policy initiatives (Weir and Skocpol 1985).

Finally, politicians' more short-term political strategies for winning business support are said to influence corporate preference development, mobilization, and participation in state programs (Katzenstein 1978; Martin 1991, 2000; Walker 1991). For example, in the area of US post-war corporate tax policy, government policy entrepreneurs sought to build business support for wildly different approaches to corporate taxation. The state actors accomplished this feat by introducing major employers to fundamentally different logics of economic growth and information about the distribution of the tax code. These entrepreneurs then mobilized their business allies to engage in partisan battles over the legislative future of the tax code. Rather than insulating themselves against capture by business interests, these policy entrepreneurs actively elicited corporate assistance in their partisan battles. Yet this use of corporate allies to augment the limited political power of the ruling governmental faction ceded jurisdictional public authority to business interests, and accelerated the siphoning off of fiscal resources of the state to private interests (Martin 1991).

To summarize, the general consensus in the American political development strand of historical institutionalism is that higher levels of state autonomy and capacity are beneficial to economic growth, because fewer political and economic resources will be diverted away from the collective good to narrow special interests. Policy choices are also deeply influenced by prior solutions to political problems made (often for contingent reasons) at historical critical junctures. To understand the degrees of freedom that a country has to respond to current issues challenging economic growth rates, we need to assess past choices and the structural autonomy of the state. Seemingly dysfunctional growth policies can be attributed to the attraction of familiar paths enduring well beyond their proven utility.

**Varieties of capitalism and functional complementarities among institutions**

An exciting recent historical institutional approach has developed with the investigations of Hall and Soskice and their collaborators into the varieties of capitalism (Hall and Soskice 2001). Building on corporatist insights, the VoC literature argues that there exist choices on how to organize the production of goods and that these choices are related to the institutions that have an impact on markets, or to what they call the institutional framework of the production process. The primary objects of investigation in this approach are the strategic choices of individual actors (especially firms). Specifically, the authors seek to identify how national institutions create incentives for employers to choose one type of production strategy over another (Regini 1995; Visser and Hemerjick 1997; Culpepper 1999; Estevez-Abe et al. 2001; Hall and Soskice 2001; Marow 2001; Mares 2001; Wood 2001).

Diverging from corporatist studies that focus primarily on business and labor associations, the VoC scholars identify four major institutional systems: the financial system, the industrial relations system, the education and training system, and the inter-company system. Differences in these systems are said to account for the variation in the strategic behaviors of individual actors: for example, why workers in some countries get more skills than workers in other countries, or why firms in some countries are more innovative than firms in other countries. These institutional differences add up to two broad models of economic production: coordinated market economies (CMEs) and liberal market economies (LMEs). These two models of advanced capitalist economies each rely on a fundamental production regime, each of which has an entirely different logic of company economic competition. Employers in CMEs realize that in addition to deriving economic advantage from physical and factor components, they can enhance their competitive positions with institutional arrangements that encourage information exchange and consensus. Consequently, CME firms choose to compete in high-skills market niches (not available to LMEs with their lower skill levels), and desire government interventions that contribute to the expansion of skills, such as high levels of social protection and policies fostering cooperative labor relations. Alternatively, in LMEs (the US being the key example), labor-management relations are contentious, neither workers nor employers have incentives to invest in skills, and competitive strategies entailing a high-skilled, productive workforce are discouraged.

Scholars writing in the VoC tradition have yielded fascinating empirical accounts of the incentives shaping firms' and workers' behaviors in diverse
in institutional settings, and have shown how these contribute to enormous differences in national growth trajectories. For example, unemployment in Germany is notoriously high, and Thelen (2001) offers startling insights into this state of affair. All things being equal, market forces and the enormous untapped labor pool should erode the rigid labor regulations and hefty minimum wage that constrain economy expansion. Yet German employers have done little to push for these reforms because labor market rigidities have benefits for their productive strategies: rigidities and high wages contribute to the high levels of productivity and workplace cooperation so vital to competition in high equilibrium markets. Estevez-Abe et al. (2001) draw attention to the stark differences in workers' incentives to invest in skills in CMEs and LMEs. Under conditions of high levels of unemployment and employment protections, workers will make risky investments in firm-specific skills, while few protections inspire only general skills creation. Casper (2001) illustrates how fundamental differences in contract law make German firms much more likely to pursue forms of non-market coordination than their American counterparts (Casper 2001).

To summarize, the VoC literature suggests a dualistic world where the rules of the game diverge markedly across models. Although economic growth is achievable under either regime, the strategies that make sense in a LME are entirely wrong for a CME and vice versa. Indeed, countries that attempt reforms deviating from their historical model run into problems because institutional complementarities reinforce strategies and prevent easy change. Although countries (such as Australia and New Zealand) seem capable of moving from greater to lesser coordination, the opposite trajectory seems especially difficult to accomplish. Thus, Ronald Reagan's famous slogan 'stay the course' might be the epitaph of choice for this scholarly tradition, as both economic GDP and employment growth tend to be weaker in hybrid countries. Yet beyond these observations about the institutional stickiness of the past, the VoC approach offers limited guidance about the future strength of growth performance in LMEs and CMEs.

Varieties of historical institutional studies

As the three examples laid out above demonstrate, historical institutional arguments about the causes of and variations in economic growth are not of a single piece. Two dimensions partition these institutional studies of growth: the degree of agency or historical contingency permissible in the key independent variables; and the object of explication or level of analysis of the dependent variable.

First, historical institutional analyses can be segregated according to the degree of agency permitted in their causal mechanisms. Some institutional accounts include little room for agency: here the structural characteristics of key institutions are said to produce a certain set of outcomes. Institutional arrangements have a certain functional logic that dictates certain types of policy choices and channels actors toward certain types of strategic choices. As Thelen (1998) suggests, the origins of institutions are often (although not always) viewed as functional solutions to a set of problems. The assumption of functionality also accounts for the persistence or 'stickiness' of the system, helping the institutional system to endure. Alternatively, other historical institutional analyses identify path dependencies as the critical explanatory factor causing policy outcomes. Although path-dependent explanations often begin with institutions, there is an assumption that the policy solutions will persist even when the institutional design changes. Thus, contrasts in British and Swedish labor market policy can be traced initially to the divergent patterns of institutional control over labor market and unemployment problems and then to policy trajectories that continued even after the institutional patterns shifted (Weir 1992; King and Rothstein 1993). Institutional explanations emphasizing path dependencies share with their more structuralist counterparts an expectation of enduring legacy or stickiness of the policy-making process, but the former includes rather more room for agency and historical diversity than the latter. Institutions and initial policies are often happened upon for contingent reasons, counter-factuals are used to reflect on what might have been under a slightly different set of circumstances, and policy legacies in these accounts may ultimately prove to be dysfunctional. Ultimately, the factors precipitating path dependencies may be more fortuitous than fortunate.

Second, historical institutionalists diverge in their object of explanation: while some scholars use institutional explanations to account for macroeconomic or macro policy outcomes, others seek to account for the strategic choices of individual actors at the micro level. For example, some corporatist investigations demonstrate that features of collective bargaining systems are important to rates of inflation and economic growth; thus, an analysis of institutional structures is used to shed light on an observed macroeconomic phenomenon (Calmfors 1990). In comparison, the VoC scholars seek to introduce the micro link to macro policy, by observing how institutional structures shape the strategic choices of employers and workers (Hall and Soskice 2001; Mares 2001). These individual choices may add up to support for one kind of incomes policy over another, but there is a common effort to identify the micro processes of the relationship between institutional structure and policy outcomes.

These dimensions produce four cells of possible institutional explanations. The studies of corporatism and the VoC trace outcomes to the structural characteristics of significant institutions, while the historical institutionalism in the American politics subfield pays greater attention to policy paths set into place by agency and historical contingency. While the literature on corporatism and American political development largely attempts to explain macroeconomic and policy outcomes, the VoC literature focuses on the
Table 3.1 Types of historical institutional analyses

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<td>Macroeconomic outcomes or policy</td>
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<td>Structural characteristics of institutional forms</td>
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<td>Path dependencies</td>
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strategic choices of employers as an object of explanation (as well as an intervening variable) (see Table 3.1).

Historical institutional explanations differ as well in terms of the institutions, given analytic precedence and research attention. While the corporatist literature places a priority on employer and labor associations, VoC scholars focus on a broader set of institutions. American political development has been rather more concerned with state institutions, and particularly how state institutions and actors have shaped the expression of private interests. While corporatist scholars have made great use of cross-national statistical analysis, the American political development literature has relied more on historical and archival inquiry, and the VoC literature has utilized theory-driven argumentation and case study, albeit with important exceptions (Gingerich and Hall 2001; Iversen 2001).

Meditations on historical institutional approaches

Historical institutional theories have contributed much to the illustration of past growth policies and outcomes, yet one wonders about their utility for future economic trajectories. The weaknesses of historical institutionalism might affect its ability to clearly see trends, possibilities and time bombs in economic growth trajectories. We now consider criticisms of the approach and its visionary gaps about the future of economic growth.

An initial problem with both the structural and historical versions of historical institutional analysis is their tendency to explain continuity more easily than change. Studies of corporatism and VoC that underscore the functional benefits of institutional structures are especially prone to this failing, although even those recognizing historical contingency in the development of policy paths are hard pressed to account for deviations from those paths. If macroeconomic and policy outcomes are largely determined by functional institutional structures, one wonders why anyone would want to deviate from the status quo. The tendency to view institutions as functional and their origins as intentional is often erroneous: institutional relations have frictions as well as functional interdependencies, especially when different parts of the overall institutional system have been created at different points in time (Hall and Taylor 1996; Goldstein 1988; Thelen 1998). The absence of agency in these models raises questions about how change might be brought about even if desired. As Coates writes in the introduction, this tendency toward institutional determinism creates a solidification of explanation that the theory was initially supposed to overcome.

The difficulties of accounting for change are compounded by a second problem, the scarcity of model types: in a dichotomous world of corporatism versus pluralism, LMEs versus CMEs, one can hardly expect abstract models to fit closely with real-world national economics or to capture diversity at the sectoral and regional levels. Yet by not fitting in this way, the model types can pull analysis away from critical areas of difference within countries treated as exemplars of one model or the other. For example, how are we to read the USA as a pure LME when it contains so fully developed a military-industrial complex that shows many CME features? Institutional models also tend to minimize economic influences on institutional development (Pontusson 1995a). Thus, business organization in America is fragmented in part because of the deep sectional divisions in the US economy. Although the absence of encompassing labor and employers' associations have reinforced tendencies toward a LME, this institutional effect has economic structural roots.

Rigidities in institutional analyses are especially problematic in light of the many forces of convergence in the international political economy and concomitant challenges to the functional logic of these governing institutions. At issue is whether the benefits of corporatism, coordination, and comprehensive welfare states will persist with the decline of managed capitalism. Globalization is complicating national policies aimed at macroeconomic stabilization and social provision (Esping-Andersen 1996; Kitschelt et al. 1999; but see Iversen 2001; Swank 2001). Technological change is creating a growing gap between skilled and unskilled, and public and private-sector workers (Lash and Urry 1987; Longstreth 1988; Lange et al. 1995). The traditional benefits of corporatism reflected not only the presence of encompassing organizations, but also the strength of unions in exposed sectors who had strong incentives for wage constraints. With the ascendency of white-collar and public sector workers, typically concentrated in non-exposed sectors, exposed-sector workers have less influence and thus there is
less impetus for macoeconomic constraint (Crouch 1990). Post-industrial societies with their shifting skills and needs have greater cleavages within both labor movements and business communities; and this split may be complicating peak association efforts to negotiate economy-wide wage agreements and decentralizing collective bargaining (Crepaz 1992; Katz 1993; Due et al. 1994; Pontusson and Swenson 1996; but see Wallerstein et al. 1997; Perez 2000; Thelen 2001). European Union (EU) integration is narrowing the jurisdiction of national policy and limiting the scope of agreements achieved through both collective bargaining and tripartite negotiations; and peak associations for labor and business at the EU level seem to have much less representational power than their counterparts at the national level. Neither the Union of Industrial and Employers’ Confederations of Europe (UNICE) nor the European Trade Union Confederation (ETUC) have been accorded negotiating mandates by their member organizations (Greenwood et al. 1992). For all these reasons, corporatist forms of interest intermediation may be losing ground in public policy negotiations (Streeck and Schmitter 1985; Sandholz and Zysman 1989; Christiansen and Rommetvedt 1999; Kitschelt et al. 1999).

A third problem with many historical institutional analyses (and primarily with path dependent explanations) is the tendency toward post-hoc explanation or tautological reasoning that loses predictive power. Path dependencies, although true, may be true by definition: we ascertain these essential truths after the fact. Lessons derived from the past can be positive or negative and one cannot predict in advance the moral of the story. There is also the problem of incorporating theoretically into the concept of path dependencies the introduction of new ideas that by definition challenge older policy paradigms. The dissemination of ideas from other regimes is an important source of policy innovation. One wonders whether path dependencies and institutional arrangements are more functional and more predictive at one point of time than another. How do these institutional solutions survive the passage of one economic era to the next? Indeed, the independent variables of both institutional structures and policy legacies are better at explaining continuity than accounting for change. Path dependencies are at once too predictive and not predictive enough, in their inability to accommodate radical shifts.

A fourth criticism of much of the historical institutionalist writing concerns its lack of a micro foundation (Pontusson 1995b; Hall and Taylor 1996). The predictive power of rational choice theorists is greatly enhanced by the discipline’s clearly specified set of incentives or processes that are applicable to various levels of analysis. Although historical institutionalist analysts make claims about the macro-effects of institutional arrangements, little theoretical or empirical work has been done to establish the validity of these claims at the micro or individual level. It is true that the VoC scholars have attempted to develop a theory of firm strategy specifying how institutions shape individual employers’ interests; however, this approach cannot account for inter-firm variations within national settings. The model points to essentially different logics of firms across regime types, but derives these logics from system-level institutional distinctions; thus, there is no place in the theory for variation among firms within national model types.

Recent historical institutional scholarship has responded to these varied criticisms. To address charges of institutional determinism and functionalism, scholars have shifted conceptually from how institutions determine outcomes to how they shape processes, thereby introducing greater contingency into predictive models. Attempting to specify how institutions shape processes of engagement, Thelen has recently argued that social pacts between business and labor need to be renegotiated. Different patterns of business association may have a divergent effect on this process, but the outcomes are by no means assured. Visser and Hemerijck (1997) and Scharpf and Schmidt (2000) have studied how corporatist patterns of interaction further the task of economic adjustment, focusing on the processes by which pro-growth coalitions and agreements are negotiated and the institutional structures giving rise to these processes. Their work suggests that, like a good marriage, the processes of negotiation, information-sharing and communication – rather than de jure agreements (such as pre-nuptials) – may be most important to long-term success.

In response to the charges that the institutional models are too encompassing and fail to capture diversity, others have tried to separate the various institutional effects contained in the broad models. Investigating the durability of corporatist forms of collective bargaining, Wallerstein et al. (1997) have disaggregated the corporatist model, showing that union coverage (density) has increased in many countries, even while the concentration of union power (concertation) has declined. In a similar vein Soskice (1990a) and Golden (1993) have both rejected centralization as the institutional factor essential to propitious wage bargaining, preferring respectively coordination and union monopoly (or the lack of competition between multiple unions for members).

Scholars have also struggled to come to terms with the post-hoc nature of path-dependent analysis. In an effort to understand precisely which paths matter, Orren and Skowronek (2004) have develop a hierarchical ordering of paths dependencies, and selected a subset of paths in American history that have been linked to a genuine transformation of governing authority. This enables them to develop generalizations about significant paths for the area of political development, and we could envision a similar undertaking for studies of economic growth. In the same vein, works on temporal changes, interaction effects, and periodicity are currently struggling to identify when paths matter, with the recognition that the salience of institutions and path legacies as independent variables change over time (Baumgartner and Jones 1993; Pierson 1994).
Recent scholarship has also struggled to identify the micro foundations of macro institutional structures, in particular looking at how structures might inspire micro processes of engagement in the political sphere. Jones (2001) has conceptually moved beyond the impact of institutional arrangements on incentives, to examine their effect on cognitive processes. I have sought conceptually and empirically to identify how structures of business association and welfare regimes shape firms' formation of their preferences (Martin 1995, 2000). This empirical work has the advantage of allowing us to move beyond tautological arguments, because theories and the validity of causal relations can be tested. In a study of Danish and British active social policies, I found that differences in business organization and welfare regimes had a profound impact on employers' willingness to participate in the program. While Danish employers belonging to a corporatist business association were significantly more likely to participate, belonging to a pluralist business association did not bring British firms to participate in the programs. Danish employers reported that their corporatist associations were enormously important in providing information about the programs and in helping firms to link these programs to larger concerns about the skilled labor pool. The UK employers, by contrast, did not (Martin forthcoming). This kind of empirical, micro-level institutional analysis can be fruitful in allowing us to evaluate whether the institutions said to influence individual actors during the golden age are losing their salience in these post-industrial, shifting times.

A final criticism (taken up in Chapter 4) is perhaps most vexing for historical institutional analysis. In its effort to free growth from economic determinism, historical institutionalist scholarship has tended to neglect the economic realm, paying insufficient attention to capitalist crisis tendencies and other broad movements in the political economy. But the essential question before us now is whether we are at such a point of broad transformation that paradigmatic change overwhelms model variations and old paths cease to hold true. Brenner (1998) has argued that capitalist crisis tendencies may be so overwhelming economies at the present that all bets are off and cross-national permutations are pushed to the margins; and if that is so, then in the final analysis, social science research will need a broader theory of the relationship between structural changes in the economy and institutions as a mediating influence, than that currently on offer by historical institutionalists.

4

Contesting the ‘New Capitalism’

Greg Albo

For some time now, students of comparative political economy have been preoccupied with interpreting the new phase of capitalism that has followed the post-war boom and been dominated by neoliberal ideas and policies. This has meant, on the one hand, a number of declarations of political endings: the end of corporatism, the end of the nation state, the end of Modell Deutschland, and so on. And, on the other hand, numerous forecasts of a 'new capitalism': post-Fordism, cosmopolitan democracy, diversified quality production, the borderless world, and so on. Behind these bold, if often misguided, formulations have been three fundamental research questions about the 'new capitalism'. First, what is the character of the new processes and activities of adding and realizing value? Second, what has been the resulting transformations in the pattern of exchanges in the world market and in the relationship between its constituent states? Third, what mediating role has been played by the variety of institutionalized relations of capitalism in these developments, and are these relations tending towards convergence or divergence of national 'models of capitalism'?

The theoretical stakes in addressing these questions - with their focus on specifying the spatial and temporal variations of capitalist development - have always been high. They have guided the neoliberal defence of exchange as the essential expression of human nature and thus the necessity of global convergence towards an institutional regime protecting capitalist property rights and liberalized markets (Bhagwati 2004). They have shaped the institutionalist concern for the parameters for differentiated distributional bargains, social networks, and governance institutions, in societies where property rights and productive assets remain private and market allocation of new investment predominates (Hall and Soskice 2001). And they have informed the Marxist concern with historically specifying and locally situating capitalist social relations, the balance of social forces, the limits of liberal democracy, and potential agendas for structural transformation (Wood 1995).