

## REVIEW ESSAY / NOTE CRITIQUE

# Diversity and Transformation within Varieties of Capitalism, Work, and Employment: The Sustainability of Alternatives to Neo-Liberalism

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Colin Crouch, Patrick Le Galès, Carlo Trigilia, and Helmut Voelzkow, eds., *Changing Governance of Local Economies* (Oxford: Oxford University Press 2004)

Jeffrey N. Gordon and Mark J. Roe, *Convergence and Persistence in Corporate Governance* (Cambridge: Cambridge University Press 2004)

Arndt Sorge, *The Global and the Local: Understanding the Dialectics of Business Systems* (Oxford: Oxford University Press 2005)

Wolfgang Streeck and Kathleen Thelen, eds., *Beyond Continuity: Institutional Change in Advanced Political Economies* (Oxford: Oxford University Press 2005)

THE PAST TWO DECADES have been marked by a growing interest in institutional perspectives for understanding work and employment relations. Yet, institutionalist theory itself constitutes a very broad school of thought. Within the economic literature, the dominant “new institutionalist” school sees institutions as providers of incentives and disincentives for rational actors.<sup>1</sup> This tradition has tended to see industrial relations as a zero-sum game: either employers or employees will have the upper hand, reflecting variations in institutional con-

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1. W. Powell and P. Di Maggio, *The New Institutionalism in Organizational Analysis* (Chicago 1991).

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straints and incentives. The bulk of this literature makes little secret of its view that the latter is a preferable state of things, and focuses on ways in which institutions can better serve the interests of capital or “property owners.”<sup>2</sup>

In contrast, socio-economic institutional theories that see institutions as centres of webs of social relations reflect a very different world view. Institutions can secure complementarities. For example, a good national vocational training system in Germany, when combined with high levels of organizational commitment, in turn underpinned by strong legal job protection, appears conducive to incrementally innovative production.<sup>3</sup> A large number of combinations of policies and social structures are possible, allowing for the emergence and coexistence of alternative models of capitalism, and there is no reason why one variety should work better than the other.<sup>4</sup> The influential varieties of capitalism (VOC) literature has drawn particular attention to the important differences between liberal market economies (LMEs), such as Canada, the US, and the United Kingdom, and collaborative market economies (CMEs), such as the “Rhineland economies” and Scandinavia.<sup>5</sup> In practice, by drawing attention to alternative models of capitalism, the VOC literature has provided a useful anecdote to neo-liberal triumphalism: it has underscored the extent to which effectively organized labour has helped secure competitiveness in and across Western Europe.

At the same time, there are a number of problems with the VOC approach. Its emphasis on path-dependence does help explain the persistence of alternative models of capitalism, but at the same time it is excessively functionalist, and has difficulty in accounting for how national economies may reinvent themselves. The transformation of Ireland from a lightly regulated liberal market to one that has incorporated a number of neo-corporatist features, leading to that country’s economic boom, is but one example. A second limitation is that there is more to institutional complementarity than things working together better than they do on their own. Complementarity may involve sets of institutions and practices with the potential to compensate for problems encountered elsewhere in the system. Systems are a lot more hybrid and mixed than an approach that focuses on order and “pedigree” might suggest: smaller, inconsistent features may compensate for failings elsewhere, rather than being inefficient in their own right.<sup>6</sup> Related to this, a third limitation is that institu-

2. J. Botero, S. Djankov, R. La Porta, S. Lopez-de-Silanes and A. Shleifer, “The Regulation of Labor,” *Quarterly Journal of Economics*, 119 (2004), 1339–1382.

3. K. Thelen, “Varieties of Labor Politics in the Developed Democracies,” in P. Hall and D. Soskice, eds., *Varieties of Capitalism: The Institutional Basis of Competitive Advantage* (Oxford 2001).

4. P. Hall and D. Soskice, “An Introduction to the Varieties of Capitalism,” *Varieties of Capitalism* (Oxford 2001).

5. Hall and Soskice, “An Introduction,” *Varieties of Capitalism* (Oxford 2001).

6. C. Crouch, “Three Meanings of Complementarity,” *Socio-Economic Review*, 3, 2 (2005),

tions are, in practice, nested at a range of levels from supra- to sub-national.<sup>7</sup> While the nation-state remains central, local institutional configurations may make for diversity. On the one hand, the limited number of combinations possible is likely to preclude systems from being diffusely diverse. On the other hand, it is possible, indeed highly likely, that more than one viable set of practices will coexist within specific national contexts. By no means are all firms in LMES characterized by shareholder primacy and excessive short-term thinking, or those in CMES by a strong union presence and cooperative industrial relations. This has led to a burgeoning critical literature that has explored the nature and extent of internal diversity and systemic change within a cross-section of national economies.

*Changing Governance of Local Economies* examines the complex and shifting nature of economic governance, exploring what drives the clustering of specific types of Small and Medium Enterprises (SMEs) within particular regional contexts, and the implications of this for workers and other stakeholders. In the introduction, Crouch and Voelzkow introduce and further explore the concept of local production systems: the extent to which networks of firms can do better when in the same locale, and the extent to which they promote a culture of specific skills among local workers that will survive the exit of more than one firm. Drawing on contemporary regulationist and related theories, they argue that local economies reflect the operation of modes of governance at a range of levels and areas. The book explores the nature and extent to which local governance systems emerge and persist within broader national settings. Chapter two, again by Crouch, studies the European machinery industry, which has traditionally prospered in such places as the greater Stuttgart region in Germany, Emilia Romagna in Italy, and the East Midlands in England. The European recession of the 1990s raised questions about the sustainability of such local clusters and the continued viability of smaller players. The decline of British industry was particularly pronounced, reflecting problems associated with the concentration of capital in the country's south and the difficulties of sustaining local production systems in the face of light regulation and an emphasis on quick returns to shareholders. While not without their problems, the machine tool industries in Germany and Italy outperformed their British counterparts, seemingly vindicating the advantages of effective local production systems.

In chapter three, Henry Farrell and Ann-Louis Holton look at the case of the packaging machinery cluster in Bologna. Here a community-based system of informal rules has underpinned a wide range of transactions, but this has been threatened by external forces favouring larger firms. Historically, a large

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360–362.

7. R. Boyer and J. R. Hollingsworth, "From National Embeddedness to Spatial and Institutional Nestedness," in Hollingsworth and Boyer, eds., *Contemporary Capitalism: The Embeddedness of Institutions* (Cambridge and New York 1997).

proportion of production was outsourced to small artisanal producers, with relations characterized by personal contacts and trust. Customer pressures towards the provision of “single solution” packages of machines have driven a move towards large firms in which more hierarchical production predominates. Chapter four, by Ulrich Glassman, returns to the Stuttgart machine tool industry. Glassman notes that while the turnover of such firms has increased, the number of machinery firms has decreased since the late 1980s, with a commensurate decline in jobs. This restructuring was marked by a greater focus on niche specialization, innovation, and ever greater efficiency. Among other things, a greater emphasis was placed on mixed, rather than craft, knowledge bases. Small firms began to cooperate with each other to a greater extent; pressures to decentralize collective bargaining also mounted, with many firms leaving the employers’ federation. Finally, significant job shedding took a particularly high toll on unskilled workers. On the one hand, the production system has survived, and indeed, enjoyed a revival in fortunes. On the other hand, there have been major costs for organized labour and employees at large: a gradual decentralization of bargaining, a large scale ejection of less qualified workers, and downward pressures on wages.

The following chapter, by Crouch and Joe O’Mahoney, looks in more detail at the UK machine tool industry which has traditionally had problems of excessive short-termism and a reluctance to reinvest. State help has tended to promote the use of consultants, a focus on promoting short-term financial returns, and a consistent avoidance of possible corporatist solutions. The experience of the French machine tool industry forms the subject of chapter six. Patrick Le Galès and Nicolas Gaubert conclude that there is a close correlation between persistent governance failures and the ongoing crises experienced by this national industry. Chapter seven, also by Crouch, seeks to draw together the case studies found in the first half of the volume. He concludes that despite pressures towards neo-liberalism, local policy trends have developed along rather different lines: while nation-states no longer have a monopoly on particular institutional forms, there seems to be an intensification of diversity in practices, leading to “distinct mixes of shared elements.” In other words, there has been no convergence towards uniformity; rather, the process has been one of borrowing and hybridization, not always in the direction of the neo-liberal ideal.

While Part I of the book looks at the challenges faced by existing local production systems, Part II evaluates new initiatives to establish local systems. If spatial concentration of SMEs no longer holds the same competitive advantages, then further concentration is likely to take place. However, the large-firm model faces problems of its own in dealing with changes in technology and consumer demand, which will drive pressures towards downsizing. The case studies focus on the political reaction to declines in steel production, particularly attempts to boost employment in alternative sectors. After a short introductory chapter, chapter nine, by Ulrich Glassman and Helmut Voelkzow, turns to the case of Duisberg. There workers, while often hostile to the class

politics of the large firms, still preferred employment in them over SMEs because the former offered higher wages. Although overcapacity in the steel industry led to major job shedding, the surviving major iron and steel producers remained competitive by restructuring sub-contracting relations, thereby adding new network structures in SMEs. The closure of two major steel plants led to the authorities promoting Duisberg as a logistics centre. Although the initial focus was on strengthening existing firms and attracting large firms, smaller firms positioned along the value chain were also attracted; hence, the large job losses in steel were somewhat offset. In the following chapter, Le Galès and Oliver Trimarche look at the restructuring of the St. Etienne region in France, where a diverse industrial sector remains, despite the dismantlement of the large metal firms. New firms and sectors have emerged, with many building on strengths associated with territorial production. Nonetheless, the region continues to face severe social problems. The transition has not been an easy one, and it has done little for the growing underclass.

Crouch and Scott-Hill look at Sheffield in chapter eleven. Rapid policy changes may have weakened the impact of policy interventions for Sheffield. However, despite a poor job creation track record, there have been notable successes in a number of areas.

In chapter twelve, Annalisa Tonarelli looks at Piombino, Italy. Here, the steel industry has been revitalized; diversification has been limited, except for the promotion of tourism. Central to this revitalization has been negotiated planning, involving both public institutions and private organizations. In the closing chapter of this section, Le Galès notes that large-scale public policies and investments are necessary to overcome the “destructive creativity of markets.” Policy-led recoveries, most notably in Duisberg, have required both private investment and public funds.

The final part of this volume examines the emergence of new local high-tech sectors. Assessing biopharma in Oxford, Neil Proudfoot notes that while the process was primarily market-driven, non-market interventions have encouraged particular patterns of behaviour. Arne Baumann and Helmut Voelzkow assess the experience of the Cologne media industry. The lesson of this piece is that national institutional frameworks may still permit, and indeed encourage, varieties in practice, allowing social actors to experiment at local levels with the heterogeneous resources provided by the system. Further case studies on local software systems in Italy and the high-tech industry in Grenoble underscore the importance of institutions and active policy in promoting development. The book’s concluding chapter, by Le Galès and Trigalia, notes that pure market solutions seem to have had little role in promoting development, regeneration, or sustainability in any of the cases reviewed. Rather, the central process has been one of combination and hybridization, involving not just markets, but also communities, local and central governments, hierarchies, and associations. This book not only sheds further light on the process of economic renewal, but also demonstrates the bankruptcy of

market solutions. The roles of the state and non-market associations are vital not only in securing jobs, but also in providing work that is decent, and in nurturing community solidarities.

Returning to the theme of diversity in national contexts, the *Beyond Continuity* collection explores the nature of institutional change. The editors identify five forms of change in the opening chapter: displacement, layering, drift, conversion, and exhaustion. An example of policy drift as a means of radical marketization is provided in chapter two by J.S. Hacker, who traces the decline of the US welfare state. He suggests that the right have not needed to enact major policy reforms to effect the desired changes. Instead they have been able to derail compensatory interventions required to correct policy drift or changing risks. This approach has precluded the welfare state from upholding longstanding goals and from adapting to the changing external world (rather than simply having a reduced role). While the existing literature on path dependence has focused on stability in institutional frameworks, the latter may create unstable outcomes that provoke real changes. The following chapter, by Colin Crouch and Marteen Keune, looks at changes in dominant practices in the UK and Hungary. These case studies highlight the extent to which subsidiary alternatives lie behind dominant ones: radical neo-liberalism behind the previous neo-Keynesian order in the UK, and cooperation with Western capital behind the previous state socialism in Győr in Hungary. Neo-Keynesianism was a temporary addition to an earlier neo-liberal order and was therefore easily jettisoned. In Hungary, state socialism proved incapable of confining an externally oriented economic sector.

Jonah Levey looks at the process of redeploying the state's role in France. Historically, French planners actively intervened in policy to promote specific sectors and development trajectories. Confronted with economic crisis in the early 1980s, they accepted a more market-oriented political economy, but also a number of new state-led programs aimed at alleviating the effects of market-led adjustment and promoting innovative new sectors and firms. Hence, the previous model has not been replaced purely by a market-driven approach: state activism in a variety of forms, with positive interventions to mitigate negative actions and trends, has persisted. The state has been redeployed, rather than emasculated. In chapter five, Bruno Pallier provides a closer examination of changes in French social policy in the 1990s. Persistent crises produced a growing consensus on the need for some reform, but less so around innovation; hence, the nature of reform has been cumulative. Marginal complements to the system have been developed, which interact with it, leading to further change.

Stephen Vogel looks at "routine adjustments and bounded innovation" in Japan. The crisis of the 1990s led to many concluding that the Japanese model was no longer viable. Yet this model persisted. Vogel notes that, in reality, marketization is not just about doing away with particular institutions, but also about the creation of new ones, a combination that poses many difficulties.

Contrary to the view that an emphasis on case law makes for weak employment rights, Japanese case law has helped entrench high job security. The accumulation of rights proved difficult to overturn by legislation. Moreover, Japanese firms have “built in mechanisms for adjustment,” most notably a capacity to negotiate wage restraint in times of difficulty. Nonetheless, adjustments over time in key firms and sectors reshape both the possibilities for and constraints on later changes. So, while Japan has not converged with the neo-liberal model, it has been subject to gradual and uneven evolution.

In chapter seven, Richard Deeg’s subject is change in the operation of German and Italian finance. The lessons these experiences hold are that change does not necessarily result from an exogenous force disturbing existing equilibria, but rather it can occur when a particular institutional path undermines itself from within. For example, in Germany, the evolution of competition and the decline in dependence on large firms upset the existing model, forcing unforeseen changes. Alternatively, hybridization may reinforce existing ways of doing things, as has occurred in Italy. A chapter on the growth of early retirement practices in Germany is followed by one on the evolution of German co-determination. The latter chapter, by Gregory Jackson, highlights the mutability of co-determination, given its two distinct faces: to restrain managerial power and to uphold cooperation between capital and labour. He suggests that for the model to survive, social partners must meet increasing challenges in adapting the model to capital market pressures. The final chapter, by Sigrid Quack and Marie-Laure Djelic, looks at the role of anti-trust law in Germany and Europe at large. Transnational institutions have been developed through a process of “bricolage,” that is, the recombination of institutional fragments.

The sole single-authored volume under review here, *The Global and the Local: Understanding the Dialectics of Business Systems*, is a study of the manner in which pressures towards internationalization are mediated by national institutional realities within national business systems. The opening chapter outlines the central paradoxes of internationalization. There are three major themes. The first is the manner in which societies become aggregated and disaggregated. In contrast to macro-level approaches that take institutions as their starting point, the author focuses on the reciprocal conditioning of societies and actors, building on interactionist social theory, but in a pragmatic and syncretic manner. The second theme is how social, political, and economic actions are both important to internationalization and interlinked, and in turn, how they play a key role in the development of societal specificity. The third theme is that individual societies that seemingly appear coherent, ordered, and path dependent, may in fact be heterogeneous and contested, Germany being a key example. The author argues that, on the one hand, internationalization of capital and markets has shattered traditional cultures and livelihoods. On the other hand, some societies have prospered from adopting a distinct technical, business, and/or socio-organizational template: countries

ranging from Switzerland to the Asian tigers have prospered because they have different rules and combinations of associations from workplace to community to the wider polity.

Chapter two explores societal effects. The author adopts the perspective that societies require constant reconstitution by actors, and hence are pragmatic affairs, adjusting to those who constitute them. Nation states are artificial constructs, often combining different social communities. Yet these constructs may impose a pervasive culture and religion. In chapter three, the author further dissects issues of national distinctiveness, pointing to the role, in the German case, of numerous guild-like bodies that devote their attention to economic governance and, hence, ultimately at government. In general, Germany has fluctuated between internationalization and localization. The next chapter explores similar fluctuations between market and corporatism, leading to the present hybridization.

The following two chapters, of the most interest to readers of this journal, look at work systems and corporate governance. The author argues that peer control and professional specialization within specific societal horizons that are both provincial and open to internationalization have generated unique work systems in management, characterized by inclusive industrial relations, inclusion more broadly, and piecemeal innovation. (183) The strata of work systems are, moreover, intimately related to the wider corporate governance system. Despite real choices by social actors, the system is likely to persist. This is to not to suggest that any German model has a particular set of persistent features, because changes and alterations to changes are ongoing. Still, an underlying bedrock of corporatist or contractually related, quasi-public goods is likely to persist. Hence, despite quotidian crises and pressures, the current German model is not likely to converge with prevailing Anglo-Saxon practices. The concluding chapter of this volume re-emphasizes its recurring theme: countries and regions face competing pressures to the general versus the local, generating specificities. While policy-makers and actors do attempt to infuse perceived best practices from elsewhere, what constitutes the latter will change over time, and currently the US model seems beyond its best-before date.

What this volume has in common with the preceding two is the view that convergence with the neo-liberal model is neither likely nor prudent. Societies are composed of competing needs and interests, which are mediated through both formal and informal institutions, agreements, and interactions. The abiding lesson is that sustainable development and growth depend on compromise and recognition of the importance and legitimacy of extensive employee rights, both in terms of the employment contract and work organization.

Rather different is the volume edited by Jeffrey Gordon and Mark Roe, *Convergence and Persistence in Corporate Governance*. With most contributions situated within the rational choice approach to institutions, the editors see institutions as providers of disincentives or incentives for rational actors.



While they do include the concept of complementarity in their analysis, they see it in terms of permitting otherwise inefficient systems to persist. Not only is path dependence likely to these editors, but it may be partially secured through rent-seeking: if managers and/or employees get a private advantage through control, they will resist change. The editors suggest that owner and employee rights are generally antagonistic – if the latter are strong, it must inevitably be to the detriment of owners. While Roe holds that the shareholder dominant model, in which employees are subordinated, is a particularly attractive one, this volume brings together a range of alternative accounts to further explore the issue of national path dependence.

The opening chapter, by Henry Hansmann and Reinier Kraakman, suggests that convergence towards the Anglo-Saxon shareholder-dominant model is inevitable; continental firms only avoided this system in the past, owing to the ability of controlling shareholders to dominate corporate policy making. While they are correct that many firms in cooperative market economies do not necessarily follow cooperative industrial relations policies, a very broad brushstroke approach makes their argument unconvincing. Persistent volatility continues to make the shareholder-dominant model unattractive to many stakeholder groupings. The latter are not always disempowered passengers, and, through active strategic interventions, they may block the destruction of more pluralist workplace politics.

In contrast, in the following chapter, Lucian Bebchuck and Roe suggest that nations are likely to be path-dependent for two reasons. The first is the internal rent-seeking argument outlined above, and the reluctance of beneficiaries to forgo their privileges. The second is the cost of adapting, and the likelihood that key groups will block moves to pare away their private benefits. Chapter three, by Reinhard Schmidt and Gerald Spindler, is much briefer than the preceding two. They suggest that even if the traditional continental European system of capitalism has been superior in terms of economic outcomes, it is less able to weather crises than its neo-liberal counterpart, which, they argue, is easier to both establish and maintain and relies less on implicit contracts. Hybrid forms of corporate governance are likely to be worse than those that replace them. At the same time, the danger of this may buttress national specificity.

The next chapter, by Ronald Gilson, explores the nature of barriers to convergence. He observes that the relative flexibility of governance will vary within and between countries, ensuring that diversity will persist in many areas. For example, venture capital may experience difficulties in spreading into liberal markets owing to differences in the role of banks. Hence, any convergence will be characterized by ongoing differences in many areas.

A very substantive chapter by Gordon looks at the relationship between international relations and pressures towards convergence in corporate governance, looking at the effects of transnational bodies such as the European Union. There have been powerful pressures for collaborative economies to adopt the shareholder-driven model. This model, Gordon argues, is more

particularly effective in serving to promote transnational integration. While repeated scandals (such as the Enron one) and obvious market failures make the shareholder-driven model less attractive, they have not undermined the shareholder model within Europe.

In chapter six, Curtis Milhaupt returns to the issue of property rights within firms. Milhaupt suggests that efficiency reasons may prompt firms to adopt similar corporate governance structures, but that they may be obstructed by the constraints imposed by political and social structures. In other words, the firm is likely to be a vehicle for modernization, constrained by more inertia-prone institutions. In the following chapter, Roe returns to the agency question; in social democracies, he suggests that there is a severe agency problem, as they “wedge open the gap between shareholders and managers” in publicly listed companies. Corporations in the US owe their success to the ability to spread risks and agglomerate capital; a key precondition is its ability to rein in agency costs. In chapter eight, David Charny suggests that the specific national institutional features and anomalies that accumulate reflect the complex and contested nature of endemic systemic disequilibria. Hence, there is no reason that, if one particular systemic feature disappeared, convergence with other, simpler systems would follow. It is equally likely that historical and political factors would lead to the emergence of another anomaly, remaking national specificity.

A well thought out chapter nine, by Charles Sabel, underscores the point that debates around capitalist diversity have, at their heart, assumptions about the relative virtues of particular national business systems. Sabel argues that, in fact, key features of both may be eclipsed by new production systems and distinct coordinate forms of governance. This does not mean that societies will necessarily converge, but that they may be locked in long transitional phases, with persistent tensions and quotidian experiments. A chapter on the possible convergence of law *and* enforcement by Gerard Hartig is followed by the final chapter by Mark Ramseyer on cross-shareholding in Japanese Keiretsu.

All the books reviewed address the key questions of internal diversity and change in national institutions. With the exception of the Gordon and Roe book, they are all essentially sympathetic to European social democracy: they point to the continued viability of key aspects of social democracy and the ability of such systems to adapt to external challenge without full liberalization. Even the bulk of contributors to the Gordon and Roe volume – despite the obvious sympathy of many for the liberal market model – concede that CMES are more durable than many of their critics would suggest.

Indeed, while commonly dismissed by the right as unsustainable, the alleged poor performance of CMES is more a reflection of neo-liberals’ sustained obliviousness to facts than reality. Many CMES have consistently outperformed LMES on a range of fronts, while almost all have enjoyed greater stability than LMES and superior social equity. Indeed, CMES continue to be far better in creating decent work. In the US, structural unemployment is “solved” by an enormous

prison population, an equally gargantuan military, and by a very large proportion of contingent jobs. Comparative institutional accounts, such as the four volumes reviewed in this essay, point to the vitality of alternatives to neo-liberalism and the complex process of change therein, the more conservative focus of several of the contributors to the Gordon and Roe volume notwithstanding. The first three volumes in particular provide invaluable insights into the process of change in work and employment in both liberal and collaborative markets, contest the inevitability of liberalization, and shed new light on the possibilities for renewing social democracies, as well as threats and opportunities for both workers and their collectives.