THE STATE OF THE ART

Towards a more dynamic theory of capitalist variety

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In this paper we analyse the comparative capitalisms literature, which encompasses several analytical frameworks, but shares common concerns in understanding the institutional foundations of diverse national ‘varieties’ of capitalism. One widespread weakness within this literature has been its static analysis and bias toward predicting institutional stability rather than change. Our contention is that introducing more dynamism into this literature must proceed on three distinct levels: the micro, meso and macro. On the micro level, it needs to develop a less deterministic view of institutions that incorporates a stronger understanding of how actors reshape institutions, not only as constraints on particular courses of action, but also as resources for new courses of action that (incrementally) transform those institutions. On the meso-level, it needs to specify more carefully the linkages among institutions and institutional domains and theorize how change in one affects change in the other. At the macro level, it needs to incorporate a compelling view of national and international politics that draws upon a theory of coalitional dynamics and the impact of particular rule-making processes that governs institutional reform in each nation.

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1. Introduction

In recent years much of the comparative political economy literature has come to focus on debates about national varieties of capitalism. In this article we use the term comparative capitalisms (CC) to refer to a diverse set of approaches and analytical frameworks with common concerns in understanding the institutional
foundations of diverse national ‘varieties’ of business organization (Jackson and Deeg, 2006). These frameworks contribute to a common effort to compare how institutional diversity impacts economic performance outcomes across advanced industrial countries.

The CC literature has several accomplishments to its credit. First and foremost it has analysed how core institutions of advanced political economies shape the behaviour of economic actors, such as business firms and interests associations. Most literature has focused on comparing the similarities and differences of institutional configurations. Second, it has shown how the interaction effects and complementarities among institutions within the same national context shape the behaviour of firms or other economic actors. Much energy has also been dedicated to exploring the complementarities among various institutional elements, resulting in a number of stylized typologies of national economies as discrete and internally consistent 'models'. Finally, this literature provides a framework for explaining how nations respond to economic shocks and forces such as globalization or European integration.

An increasingly recognized deficiency of the CC literature is its relatively static analysis. The emphasis is on understanding how institutions as constraints on economic agents, rather than on the origins or evolutions of the institutions themselves. Changes in the institutional makeup of these national models over the last decade have made it increasingly clear that the CC literature has conceptual difficulties in explaining institutional change. For example, the concept of complementarities suggests international convergence would occur only slowly or not at all, since existing institutions reinforce one another and piecemeal borrowing of 'best practices' is likely to decrease efficiency. On the whole, this literature largely has portrayed institutional change as modest evolutionary change that leaves national distinctiveness intact. While some cases of institutional change appear consistent with this view, a growing body of empirical literature suggests that institutional change is often more profound and calls into question the very models of capitalism the literature so carefully constructed.

This paper highlights four empirically observable categories of institutional change that challenge the CC literature: transnationalization, growing heterogeneity across firms within national economies, functional change in institutions despite their formal stability and systemic shifts in national business systems (typically from one subtype to another within a broader typology of capitalist systems). These elements of change have intensified since the mid-1990s and present a challenge to existing CC approaches. The most recent CC literature has indeed begun to address these issues and we build upon these efforts (Aoki, 2001; Streeck and Yamamura, 2001; Morgan et al., 2005; Streeck and Thelen, 2005). This paper aims to assess the commonalities and differences in how institutional
change is understood within this literature and suggest a more general agenda for introducing a dynamic perspective into CC analyses.

Specifically, we argue that introducing a more dynamic conception of national varieties of capitalism requires moving forward simultaneously on three levels of analysis. The first or micro-level is to establish a basic concept of institution that allows for a more dynamic or variable conception of institutionalization and how institutions change, i.e. elucidating, incorporating and investigating specific mechanisms of institutional change (Aoki, 2005; Greif, 2005; Hall and Thelen, 2005). The second, meso-level, entails more careful modelling linkages between different institutions and especially recognition that the interaction effects among institutions may also produce inefficiencies and tensions, not just complementarities in the sense of positive mutually reinforcing dynamics, as is often assumed (Crouch, 2005). At the third, macro level, the challenge is to better incorporate national and international politics into models of capitalism, as well as to reconsider existing typologies.

The article begins with a brief review of the CC literature, and outlines four key empirical challenges to the existing literature. Next, we explore how recent contributions within the literature have conceived of institutions and institutional change, particularly stressing a shift from the notion of institutions as constraints to institutions as resources. The final section advances a set of arguments regarding CC and change at the micro, meso and macro levels of analysis before drawing some initial conclusions about the potential for dynamic analysis within the CC perspective.

2. A brief review of the literature

The literature comparing different models of capitalism includes several major alternative analytical frameworks. Best known today is the varieties of capitalism framework of Hall and Soskice (2001), which takes a firm-centred approach to characterizing the institutions in terms of incentives for coordination. Alternatively, the social systems of production literature compares nations in terms of a wider typology of governance mechanisms (Hollingsworth and Boyer, 1997). Finally, the national business systems approach links coordination and governance with a closer focus on the internal organization and capacities of business firms (Whitley, 1999). This large and diverse literature shares common concerns regarding the nature and extent of diverse forms of capitalism, their relative economic strengths and weaknesses, and the future of institutional diversity under conditions of growing global economic integration.

Three analytical assumptions inform and unify these analytical frameworks (Jackson and Deeg, 2006). First, economic action is viewed as a special case of social action that ‘needs to be coordinated or governed by institutional
arrangements’ (Hollingsworth et al., 1994, p. 4). Economic action is ‘embedded’ within social contexts and mediated by institutional settings (Granovetter, 1985). Here, markets and hierarchies are not the only coordination (governance) mechanisms for economic behaviour, which also include social networks, associations and state intervention. These concepts of coordination have been developed as a basis for comparing the social embeddedness of economic activity across different scales such as sectors, regions and especially nations.

Second, the CC literature has examined how institutions and governance mechanisms are associated with economic outcomes. The task of comparison in this research is to understand how institutional diversity impacts various economic outcomes at both the micro and macro levels (e.g. growth, efficiency and innovation). A corollary argument is that different institutional configurations have advantages and disadvantages in fostering distinct production strategies, forms of innovation, etc. and may explain aggregate national economic outcomes (e.g. growth or inequality). Thus, a major contribution of this literature has been theories of comparative institutional advantage (Whitley, 1999; Aoki, 2001; Hall and Soskice, 2001). Most studies focus on institutional diversity at the national level (or families of nations), although related works also stress the regional and sectoral variation of institutional arrangements (Hollingsworth et al., 1994; Herrigel, 1996).

Third, national economies are conceptualized in terms of interdependent sets of institutions. Different institutional domains of the economy—industrial relations, finance, corporate governance, training and social protection systems—are viewed as holistically as specific, non-random configurations of capitalism. The interactions between these institutions suggest that the effects or viability of an institution may depend upon the particular combination of other institutions present within the same political-economic system. These institutional configurations create a particular contextual ‘logic’ or rationality of economic action (Maurice et al., 1986; Biggart, 1991). A number of typologies have been proposed to describe how institutions co-vary across different domains.

A key concept for understanding configurations of capitalism is institutional complementarities (see Aoki, 2001). Complementarity may be defined as situation where the difference in utility between two alternative institutions $U(x') - U(x'')$ increases for all actors in the domain X, when $z'$ rather than $z''$ prevails in domain Z, and vice versa. If conditions known as ‘super-modularity’ exist, then $x'$ and $z'$ (as well as, $x''$ and $z''$) complement each other and constitute alternative equilibrium combinations (Milgrom and Roberts, 1990). Complementarities do not imply economic efficiency in any absolute sense. Rather, complementarities may help to explain why suboptimal organizational arrangements are sustained and how particular institutions are supported, constrained
by or exist in tension with the presence or absence of other specific institutions. This perspective also implies that institutions evolve in a largely path-dependent fashion, since institutional change in one domain will be constrained or amplified by the complementarities between institutions in other domains such that change is likely to occur along predictable trajectories or pathways.

3. Key challenges to the CC literature

Despite the strengths of this literature, empirical research has pointed to a number of developments that present serious challenges to its analytical assumptions. One obvious but difficult challenge is the rapid internationalization of economic activity, not just in terms of trade but broad interaction among economic systems and their respective institutions. The CC literature presupposes that economic systems are ‘nationally organized’ in the sense that one can analytically separate the effects of domestic institutions in a single, sovereign state from institutions in other states or transnational institutions. While the usefulness of the nation-state as a unit of analysis was reaffirmed in empirical studies (Hollingsworth et al., 1994), a widespread debate over international ‘convergence’ opened during the 1990s. The convergence thesis predicted the gradual (or not so gradual) erosion of the institutional differences among different national economies because of intensified competition, with all converging on an essentially similar institutional configuration. While some observers conceived of convergence in terms of mixing ‘best practices’ from different national systems (Kester, 1996), others see internationalization in terms of liberalization toward more market-oriented institutions (Streeck and Thelen, 2005).

Most empirical studies since the mid-1990s reveal that national political economies are indeed changing, in many cases quite extensively, but few studies argue that these changes constitute convergence toward a single model. Several sets of arguments have been offered against the convergence thesis. First, most national economies still produce overwhelmingly for national consumption. Second, market competition is imperfect, permitting substantial variation in production strategies across different niches (Boyer, 2004) or functionally equivalent but distinct solutions to common challenges. Third, different countries have different strengths and thus globalization does not mean increased head-to-head competition between nations and their firms so much as an intensified global division of labour that allows countries to specialize on their comparative advantages. Finally, even if managerial practices diffuse from another country, such transfer rarely leads to the same outcome in the adopting country (Streeck, 1996; Campbell, 2004). Institutional complementarities mean
that borrowed practices will interact differently with the surrounding institutions in the new environment and will likely necessitate adaptation of those ‘imported’ practices. For example, a growing literature on the ‘Anglo-Saxonization’ of German firms shows that borrowing of new ‘shareholder-value’ oriented practices involves substantial adaptation to the German context of stronger stakeholder rights and involvement (Höpner, 2001; Jackson, 2003; Boersch, 2004; Fiss and Zajac, 2004; Vitols, 2004).

Even if we reject the convergence thesis, wide-ranging institutional change nonetheless challenges the validity of existing typologies of capitalism and their emphasis on the constraining nature of national institutions. The remainder of this section discusses four such aspects of institutional change.

3.1 Transnationalization and multilevel governance

One major set of changes results from the increasingly transnational character of economic actors and multilevel character of institutions that go beyond the nation-state. The growing importance of multinational corporations and global investors reduces the constraining effects of domestic institutional configurations in various ways. Regime competition may result from globally mobile firms and investors, who can use their option to exit in order to choose or ‘shop’ among national economies and locate their activity in the institutional context most congenial for them (Streeck, 1997; Mayer and Fluck, 2005), as well as lobby for change in those institutions. Multinational corporations sometimes borrow and combine practices from different national settings (Edwards et al., 2006), as well as successfully export practices from their home country to foreign institutional settings by exploiting the ‘slack’ or ‘space’ within the host country to adopt practices that, according to the CC literature, are not favoured by that institutional environment (Edwards and Ferner, 2002). Conversely, reverse diffusion may take place when firms transfer the experience in a host country back to their home country (Anastasakos, 2004). National institutions may thus pose a less clear set of constraints than supposed by the CC literature, since firms use institutions beyond their national borders to help ‘solve’ coordination problems.

National capitalisms are also becoming ‘institutionally incomplete’ in that the regulatory coverage of different institutional domains increasingly takes place at different geographic scales. For example, the EU now regulates not only a wide range of product markets but also financial markets, corporate governance institutions, and influences industrial relations and social welfare systems to a lesser extent. The EU mandate to support markets in Europe often challenges national regulation, particularly for more coordinated forms of capitalism (Scharpf, 2000). Likewise, large firms and financial institutions increasingly orient themselves directly to international rules (e.g. accounting standards),
industry-specific norms and practices (e.g. banking regulations by the Basel Committee), or specific foreign regulatory regimes (e.g. listing shares on the New York Stock Exchange) (Coffee, 1999; Gilson, 2000). Domestic governments may loosen or modify domestic rules so that firms can comply with these transnational rules or institutions. These sorts of multilevel governance systems mean that national institutions are becoming overlain by a growing set of European or international institutions. Consequently, European economies must ipso facto exhibit growing commonalities in many of their domestic institutional configurations (albeit well short of convergence to one model).

Recent CC literature has proposed several strategies to address the issues of transnationalization and multilevel governance. One possibility is to more explicitly theorize how institutional institutions affect domestic institutions, as well as how domestic institutions mediate between national actors and transnational pressures (Djelic and Quark, 2003; Morgan et al., 2005). Others see national institutions as being nested within transnational institutions (Hollingsworth and Boyer, 1997) and thereby add them as another institutional domain in constructing typologies of capitalisms; i.e. treat transnational institutions as distinctly (unmediated) causal either at the level of sectors (e.g. pharmaceuticals), domains (e.g. industrial relations) or geography (e.g. the different regional integration processes in Europe, North America and East Asia). A final possibility would be to move away from the nation as a unit of analysis. Capitalist diversity may persist not through national differences, but between subnational regions, internationalized sectors and globally operating firms (Crouch and Streeck, 1997). These efforts all suggest the need for a more complex conceptualization of the institutional environment beyond a self-contained view of the national level.

3.2 Heterogeneity within national models

One consequence of multilevel governance is the growing heterogeneity among firms within national models—in short, ‘models within models’. For example, recent regulatory reforms have offered distinct new sets of rules for globally oriented firms, which firms can opt into if they so desire (Deeg, 2001; Gilson and Milhaupt, 2004). Institutional layering of this kind may allow differential adoption of ‘old’ and ‘new’ business practices according to sectoral and firm-specific characteristics. For example, the likelihood of Japanese firms adopting corporate governance reforms depends upon countervailing pressures from foreign owners, but also on the degree of embeddedness in past interfirm networks (Ahmadjian and Robinson, 2001). As a result, the corporate governance characteristics of Japanese firms have become more diverse (e.g. adoption versus non-adoption of reforms) as firms become less constrained in choosing financial instruments, and make viable various new ‘hybrid’ combinations of firm
characteristics alongside the persistence of the traditional Japanese model (Aoki et al., 2007).

This trend echoes past literature that stressed the persistence or revival of regional economies within a nation that exhibit a significant difference in their configuration of institutional governance mechanisms from the national model, e.g. industrial districts in northern Italy or Germany (Locke, 1995; Herrigel, 1996; Casper and Whitley, 2004; Herrigel and Wittke, 2005). Without denying the importance of national institutions, this literature stressed that other mechanisms of institutionalization may operate on smaller scales within those boundaries. For example, social networks based on direct ties between firms may differ across locality, as evident by the rise of Silicon Valley in the US (Saxenian, 1994).

As such, heterogeneity was always a feature of national models, but is likely to grow as formal mechanisms of institutionalization at the level of the nation-state become more fragmented into multilevel systems of governance and leave larger ‘gaps’ for less formal modes of coordination, such as social networks. For example, the shifting boundaries of firms may bring practices ‘outside’ the remit of associational forms of governance, such as industrywide collective bargaining (Sako and Jackson, 2006), and thereby question the scope or boundaries of institutions (e.g. debates over labour market ‘dualism’). More fundamentally, the degree to which multiple sets of firm-level practices can be accommodated within a national setting is an empirical question, and may even tend to differ across types of national system. For example, liberal market economies may tolerate more local experimentation, such as the coexistence of ‘high road’ labour practices alongside ‘low road’ adversarial relations, whereas choices may be more constrained in coordinated market economies (Sako, 2005; Brewster et al., 2006). While variation of firm practices may still be greater across countries than within them, the study of internal variety and companies as deviant cases are crucial for understanding processes of change within national systems.

3.3 Formal stability, but functional change

Comparing models of capitalism is further complicated by the fact that behind formal institutional stability there is, in many instances, substantial functional change (Gilson, 2000; Goyer, 2003). Economic models of capitalism involve specifying functional linkages between sets of institutions, such as their contribution to ‘coordination’, and modelling complementarities between them. More sociological perspectives would suggest, on the contrary, that actors may often use similar institutional structures for a variety of different purposes. For example, the German system of co-determination displays remarkable formal institutional continuity, but has undergone substantial ‘conversion’ to serve
different functions and purposes over time (Rehder, 2003; Jackson, 2005). This presents a particular difficulty in comparative research, since a national system may ‘appear’ stable due to persistence of formal institutional differences, but still undergo substantial functional change that alters the ‘logic’ or complementarities behind the model.

3.4 Recombination and systemic shifts in national models

While most CC literature postulates stability at the macro level of national systems, national economies do also undergo sufficient institutional change so as to no longer fit into their presumed category or ‘type’ of capitalism. Since the 1980s or 1990s, some cases of change have been quite radical (e.g. New Zealand) and a country can convincingly be reclassified as having moved to a different category of capitalism. More often, institutional change presents a mixed picture, such that a national political economy may sit uneasily between two or more ideal-typical categories (Paunescu and Schneider, 2004; Molina and Rhodes, 2006).

Whether change occurs within types or between types depends very much on the typologies themselves used to compare capitalisms. The broad bipolar distinction between liberal market economies and coordinated market economies seem too coarse to understand change, particularly that of coordinated economies to ‘mixed’ or alternative ‘hybrid’ forms of capitalism (Howell, 2003; Jackson and Deeg, 2006). For example, Germany may still be a CME, but this misses various important changes in how those institutions achieve coordination. If we allow that ‘coordination’ can take place through a variety of mechanisms, such as networks, associations and the state, then substantial change may take place from networks to associations or states to networks but be missed within the broad CME heading.

In sum, important limits have been reached to the notion of national varieties of capitalism as institutionally complete, coherent and complementary sets of institutions, which achieve and maintain stable sets of characteristics. A growing wealth of empirical literature has shown national forms of capitalism to be more institutionally fragmented, internally diverse and display greater ‘plasticity’ with regard to the combinations of institutional forms and functions. These trends are not entirely new, but their implications have not been fully taken on board within existing theoretical frameworks. Nonetheless, many basic insights of the CC literature remain intact—countries have not converged, change is often incremental, and institutions still offer distinct sets of competitive advantages in different sectors. In other words, the CC literature still retains strengths in explaining cross-national patterns of firm behaviour, but the patterns of behaviour ‘to be explained’ have also evolved (and in some ways may be less discrete across countries) and the ways institutions shape those
behaviours is often changing. Accounting for both the stability and change of varieties of capitalism requires revisiting the basic theoretical issue of institutional change.

4. Towards a dynamic understanding of institutions as resources

The challenges outlined above raise questions about the contemporary accuracy of national typologies of capitalism. But more fundamentally the key issues relate to the dynamic aspects of capitalist diversity, such as how national models come to cohere and display complementarities, and how the creation and change of institutions relates to politics. What theoretical approaches does the literature bring to explaining the dynamic aspects of institutions? At one end, the framework of Hall and Soskice (2001) embodies a strong theoretical emphasis on institutional stability, in effect suggesting that institutional change is virtually always incremental and non-transformative. At the other end, more sociological approaches have drawn on a more constructivist view of institutions and link change to discourse and actors’ reinterpretation of the utility of institutions (Sabel, 1994; Herrigel, 1996; Schmidt, 2002). This section will argue that recent developments also point to some fruitful points of agreement across diverse perspectives in understanding how institutions relate to economic actors and how actors may change institutions.

Hall and Soskice (2001) imply that actors under intense competitive pressure may modify institutions gradually, but are unlikely to promote wholesale institutional change. The framework relies (mostly implicitly) on a theory of path dependency. A path-dependent process is one characterized by a self-reinforcing sequence of events through positive feedback mechanisms. In their framework, a key source of positive feedback and thus stability is institutional complementarity. The authors define complementarity in terms of when ‘...the presence (or efficiency) of one [institution] increases the returns (or efficiency of) the other’ (Hall and Soskice, 2001, p. 17). Because of the efficiency gains derived from the coexistence of multiple institutions, actors will resist changing them, and the more institutions within a given national economy complement each other, the more resistant those institutions are to change (Hall and Soskice, 2001, p. 18–19). But the tight linkages posited between domains lead to a rather dichotomous alternatives of stability or change. Isolated changes in single institutions are unlikely since these lack complementarities, and so firms in CMEs and LMEs largely react to pressures by increased specialization in ways that intensify their distinctiveness. But if changes do occur, the system is likely to become unstable and undergo a large, discontinuous shift toward a new equilibrium. Hence, this framework has been widely criticized for
overemphasizing stability and being unable to account for institutional change (Howell, 2003; Allen, 2004).

A similar reliance on path dependency, broadly speaking, is shared by many other writings within the CC literature (Stark and Bruszt, 1998; Whitley, 1999; Aoki, 2001; Crouch, 2005). In our view, the difficulty lies not in the concepts of path dependence or complementarities per se. The problem arises when these concepts are modelled too narrowly in terms of how institutions fulfil particular systemic functions for economic exchange (and related assumptions about what is in actors’ best interests), such as supporting relationship-specific investments. This emphasis on the economic or functional analysis of institutions, linking them to economic performance, has led the framework to severely downplay the role of politics and power in creating institutional equilibria (Jackson and Deeg, 2006). A more Weberian view of institutions would stress not only the functions performed by institutions, but their distinct ‘logics’ and the different (and sometimes irreconcilable) sets of values that govern them (Weber, 1989).

Hall and Thelen (2005) have recently sought to address many of the subsequent criticisms and weaknesses of the original Hall and Soskice framework. They begin by conceiving of ‘institutions as resources’. The original framework saw ‘institutions as equilibria’, where the stability of a particular pattern of strategic interaction usually rests on the absence of a pareto-improving alternative. The ‘logic of appropriateness’ notion (Powell and DiMaggio, 1991) alternatively suggests that institutions are created and sustained because of norms. Hall and Thelen are sympathetic to both views, but view them ultimately as too deterministic with regard to actors’ ability to influence institutional development. They suggest institutions are best seen as resources that actors may legitimately use to attain their ends, rather than as a matrix of incentives and constraints. Institutions provide opportunities for particular types of action, especially collective action. Thus, institutions do not simply embody strategic action where, in effect, institutions determine actor strategies (as was the general conception of institutions in the original framework), but can also be the object of such action. Actors regularly reassess the utility of institutions, test the limits of existing institutions and engage in continuous experimentation, even in periods of relative institutional stability.

When existing institutions no longer satisfy the self-defined interests of actors, they will seek to change them. Here, Hall and Thelen suggest there are at least three routes for institutional change. First, actors can defect from behaviours associated with previously established equilibriums. Second, actors can reinterpret existing institutions in ways that leave them formally intact but change the content of practices or behaviours associated with that institution. This allows for formal institutional stability that masks functional change of those
institutions. Finally, institutions can change through a more formal (and overtly political) process of reform.

This concept of institutions is, in fact, quite similar to those found in other recent literature. For example, Amable (2003, p. 10) sees institutions as (self-enforcing) equilibria, but allows such equilibria to reflect interactions among unequal actors with divergent interests. Thus, institutions are ‘political-economic equilibria’ inasmuch as they embody the relative power of different groups—a point echoed by Aoki (2001). This role of power becomes central to institutional change; change at the system level may reflect either the shifting interests of the dominant ‘socio-political bloc’ or a relative shift in the power of different social groups (Amable, 2003). Social groups are also political actors, and these interact within structured formal political process (e.g. majoritarianism) in shaping change in the institutions that govern the economy.

In our estimation, these two works reflect a general (but not full) convergence in much of the CC literature on a more complex conception of institutions that borrows from sociological, rational and historical conceptions of institutions (Herrigel, 1996; Thelen, 2004; Crouch, 2005; Streeck and Thelen, 2005).

Certain commonalities among these perspectives are highlighted by the notion of ‘institutions as resources’. From rational choice institutionalism this conception accepts that institutions often serve as solutions to collective action problems and have self-enforcing characteristics, while eschewing its strong functionalist disposition; from historical institutionalism it takes the awareness of underlying relations of power (and political coalitions) in shaping the origins and evolution of institutions, while eschewing its reliance on path dependency and bias toward institutional stability absent exogenous shocks (a bias shared by rational choice institutionalism); from sociological institutionalism it accepts the importance of interpretation and discourse among actors in shaping institutional change, while eschewing its heavy reliance on normative mechanisms for institutional change.

The common—though not universal—trend is to see institutions as less determinative of action, i.e. ascribing more autonomy and capacity of actors to alter (or avoid) institutions they no longer find amenable. While institutions may reduce uncertainty for actors, institutions do not fully circumscribe action. ‘Gaps’ occur between institutionalized rules and situational demands, which are overcome through learning and institutional entrepreneurship (Crouch, 2005), as well as activation or redirection of latent capacities or repertoires of action toward new ends (Aoki, 2001). This perspective does not mean that institutions

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1 Several works have extensively reviewed these different concepts of institution (Powell and DiMaggio, 1991; Hall and Taylor, 1996; Thelen, 1999).
can be reinterpreted or altered at will. Rather, institutionalization may occur in degrees, from the shallow ‘scripting’ of jazz improvisation to the ‘total institution’ of the prison, and thereby impose different levels of constraint on actors or impose different types of sanctions for deviance (Jackson, 2005).

For studies of capitalist variety, this suggests that actors respond to changing competitive economic pressures by regular experimentation with the institutions that govern them. Often this experimentation or ‘adjustment’ reflects a process of stabilizing the existing institution through minor modification toward new ‘ends in view’. At other times, actors find existing institutions unacceptable in light of changing circumstances, including shifts in the resources or capacities of those actors themselves. Consequently, they engage in strategies to eliminate, alter or marginalize institutions—although with varying degrees of success. This conception importantly does not require an exogenous shock to an established equilibrium to introduce institutional change, but sees reproduction and change as ongoing accomplishments feeding into one another.

5. An agenda for studying institutional change

This recent debate over the origins, nature and change in institutions has helped introduce a much more dynamic conceptualization of institutions and economic actors. Our contention is that introducing more dynamism into the CC literature must, in fact, proceed on three distinct levels—the micro, meso and macro. On the micro level, CC needs to develop a less deterministic view of institutions that incorporates a stronger understanding of how actors reshape institutions not only as constraints on particular courses of action, but also as resources for new courses of action that (incrementally) transform those institutions. On the meso-level, CC needs to specify more adequately those linkages (e.g. complementarities) among institutions and institutional domains and theorize how change in one affects change in the other. Finally, at the macro level CC needs to incorporate a compelling view of national and international politics that draws upon a theory of coalitional dynamics and the impact of particular legislative or rule-making system that governs institutional reform. These three levels are linked in that the mechanisms of change identified at the micro-level are reproduced at the meso and macro levels, and changes at different levels are often linked.

2 A very interesting development in institutional theory in this regard involves the application of pragmatist theories of action to understand creativity within institutionalized settings (Joas, 1992; Whitford, 2002; Beckert, 2003).
5.1 Microtheory of institutional change

Several issues are involved in understanding institutional change from the micro-level. First, institutions must be conceived in a way that allows sufficient scope for change without reducing institutions to arbitrary or rhetorical constructs. Second, specific mechanisms of change, i.e. how change occurs, must be explored in a more empirically grounded fashion. A third and perhaps more ambitious task is to specify the preferences of actors in regards to institutions and change and thus when change occurs.

On the nature of institutions, institutional analysis has generally emphasized the constraining character of institutions. To the extent that behaviour is consistent with institutional rules (choice-within-constraints), institutional change seems almost inevitably to be exogenous. The previous section noted some convergence around an emerging view of ‘institutions as resources’ for action. This conception has the advantage of being compatible with notions of equilibrium (e.g. institutions not just as rules of the game, but self-enforcing ways that players play the game), but sees equilibrium as a dynamic process of feedback between actors and resources, expectations of others’ behaviour, strategies and their consequences (Aoki, 2005; Greif, 2005). In distinguishing institutions from broader sets of social conventions, institutions often rest on more formalized collective enforcement of those expectations that endow them, not just with predictability, but also legitimacy (Streeck and Thelen, 2005, p. 9–10).

An important interpretative point is that, ‘the enactment of a social rule is never perfect and that there always is a gap between the ideal pattern of a rule and the real pattern of life under it’ (Streeck and Thelen, 2005, p. 14). Institutionalized rules and expectations represent situational contingencies in only general terms and need to do so in order to be transposable across diverse situations (White, 1992). Consequently, institutions can often be interpreted in more than one way. Such ambiguity leads actors to continually reinterpret institutional opportunities and constraints, as well as adapt and modify institutional rules—perhaps not unlike the way in which litigants, lawyers and courts invoke legal rules, present (often contesting) interpretation of the cases, and arrive at new precedents for future cases. Since institutions remain an imperfect guide for action, actors may ‘discover’ new faces of an institution over time through learning, experimentation, conflict and historical accidents. This conception also provides us with a more nuanced conception of the connections between institutional stability and change, because underlying even the stability or ‘reproduction’ of an institution is a constant perpetual action of reinterpretation and minor adjustment (Clemens and Cook, 1999). At the same time, conceiving of ‘institutions as resources’ should not lead to an overly plastic view of
institutions, thus eliding the fact that actors often get stuck with institutions they do not like but cannot change—either because alternatives do not exist or cannot be constructed, or because they lack the power to change them, or because it is too costly to jump (perhaps because coordination is difficult) to a different institutional path.

The second task at the micro level can usefully begin with Streeck and Thelen (2005, p. 8–9) who identify four types of institutional change. The first they label ‘reproduction through adaptation’ to capture instances in which marginal adaptations are made that stabilize an existing institution. ‘Survival and return’ reflects situations in which institutions continue or reemerge with some reconfiguration through major historical break points. ‘Breakdown and replacement’ refers to situations in which an institution is ended and replaced with another. Finally, ‘gradual transformation’ captures fundamental institutional changes that result from a long series of incremental changes that have a cumulative effect over time. Given our focus on transformative institutional change, that latter two types are of greatest interest. Examples of both types of change can be found in the present evolution of capitalist systems.

Within the category of gradual transformation, five mechanisms or modes of change are identified (Thelen, 2003): ‘displacement’ is when one institution takes place of another or becomes viable alongside the first and begins to crowd it out; ‘layering’ when a new institution is created alongside an established one but grows much faster over time thus gaining greater salience; ‘drift’ occurs when actors do not adapt existing institutions to environmental changes and the meaning, scope and function of the institution changes as a result; ‘conversion’ is when existing institutions are utilized for new goals and functions; and ‘exhaustion’ captures institutional breakdown that occurs gradually over a period of time (rather than sudden collapse). More recent literature suggests one further mechanism, ‘reform’, which occurs when institutional change is mandated or endorsed by the state through formal political processes (Hall and Thelen, 2005).

These various mechanisms of change allow not just for exogenous sources, but endogenous causes. They put common emphasis on the key role of institutional entrepreneurs and strategic efforts by actors to consciously alter institutions (Pierson, 2004; Crouch, 2005). Actors seem to be able to reinvent, avoid or recombine otherwise constraining institutions because of the ‘gaps’ that exist between the behaviour prescribed by an institution and the actual behaviour that occurs within it. As noted above, these gaps arise from many sources, and are inherent in the interpretative ambiguity of how to apply an institutional rule in new contexts (Beckert, 1996; Jackson, 2005).

A third task at the micro level is developing a theory about when actors seek change and when some types of change and modes of change are more likely than
others. This challenging and complex task can only be given limited attention in this paper. But one potential answer, which grows out of the definition of institutions as resources, is that actors are always seeking change in institutions. There is constant experimentation—even at the margins—with institutions so as to use them in more profitable fashion (however defined). Still, pressure for change will rise when it fails to ‘function’ in an economic sense or in light of value-rational behaviour. Directing institutions to better serve underlying economic interests is clearly a driving motivation for change but not the only one; the desire for relative gains in political power is sometimes equally or more important. Relative power shifts can thus also precipitate efforts to change institutions—a key point within ‘older’ institutional theory (Thelen, 2004). Whether economic or political in origin, change often begins as a deliberative process in which actors seek to diagnose and define the nature of the problems they confront, as well as to convince other actors of the need for change and even to campaign for a particular kind of change. Because of the redistributive consequences of institutional change, this is inherently a political process (Culpepper, 2005; Hall and Thelen, 2005, p. 10–11). The particular type of change and mode of change occurs will likely depend upon the particular constellation of institutions and actors coexisting within a particular system at a given moment in history and thus cannot be specified ex ante.

These general organizing concepts still need to be embedded within more specific hypotheses that relate to case- and institution-specific conditions. That is, they can be used in conjunction with general models of functional (collective action) problems or ideal-types of social orders for the interpretation of specific historical cases. For instance, within training and education systems, firms face collective action problems regarding how much to invest in worker training; if a firm invests too much and other firms poach its workers, it does not make a sufficient return on its investment. Yet if it fails to invest, the firm will lack the worker skills it desires. How different economies attempt to solve this dilemma creates an identifiable institutional equilibrium. Once this is known, it becomes easier to specify actor preferences and how they are likely to respond to particular kinds of exogenous, or even endogenous, institutional change that affect the ‘pay-offs’ for each actor under the present equilibrium (Thelen, 2004).

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<sup>3</sup> Morgan (2005) argues for a stronger theory of the firm in the CC literature which provides a theoretical explanation for how firms approach institutions. In this view firms seek to establish distinctive or unique capabilities, but such uniqueness is fleeting and thus firms must constantly seek new markets and capabilities; institutions are used to aid them in this process.
5.2 Meso-theory of institutional change

While the micro level of analysis will tell us much about how institutions change and to some extent when they change, the meso-level of institutional configurations and national ‘models’ is actually the heart of the CC literature. Here, many issues remain unresolved as to how changes in different institutions might be linked together. Drawing on micro-level theory to explain the process of change, this level requires modelling how change affects the nature of links with other institutions.

As discussed in the previous sections, the CC literature has relied extensively on the concept of institutional complementarity to build typologies of distinct capitalist systems. We also noted that this view is associated with a strong assumption about stability and path dependence of institutions, since institutions were viewed as being strongly reinforced or supported by institutions in other domains. However, the predictions for institutional change that derive from it do not appear to be holding up—or are at least being challenged by compelling empirical evidence. Certainly some version of the complementarities hypothesis is essential to the comparison of national economies and their institutional configurations.

How then can complementarities be usefully conceived and measured? Hall and Gingerich (2004) made a noteworthy effort to measure institutional complementarities and found a clear and internally consistent clustering of economies into CME and LME types, alongside some in the mixed category. Consistent with their predictions, the authors find that economies with high levels of internal consistency had higher growth rates than those with lower consistency. Yet Hall and Gingerich’s diachronic test finds that the correlation between institutional complementarities and growth is weakening over time. A further study by Kenworthy (2006) actually finds no correlation between the degree of institutional coordination and performance, indicating that the findings may lack robustness with regard to the time periods and classifications of countries.

In terms of measurement, Hall and Gingerich rely on an additive index of different degrees of coordination, which aggregate different institutional elements along a single dimension. This indexing method imposes a number of theoretical assumptions on the analysis, such as the relative importance of different institutional domains and necessity for coherence across all domains. This approach may also obscure whether the institutions that generate complementarities evolve or change over time; or whether existing institutions have been replaced by new ones while still generating complementarities at the macro level. Alternatively, Boyer (2004) approached complementarities through an inductively based typologies of countries derived from cluster analysis and
found at least three institutional configurations that produced successful ‘technology-led growth regimes’. However, given that not all combinations of institutions are observed in the advanced industrialized world, it is difficult to make inferences about the complementarities among certain configurations through their macroeconomic performance, because the fortuna of external circumstances may prevail and compensate for underlying institutional mismatch.4

An alternative approach relates to set-theoretic methods and qualitative comparative analysis (QCA), which analyse all the different logically possible combinations of institutional traits before testing whether particular configurations are sufficient for performance (Fiss, 2005; Kogut and Ragin, 2006).5

For example, a recent study of lean production practices identifies a number of different combinations that are sufficient for higher productivity, suggesting strong complementarities between certain practices but also functional equivalence across several alternative combinations (Kogut et al., 2004). Another QCA-based study on board-level employee representation found that only certain combinations of institutions, such as consensual political systems and union centralization, were sufficient to explain institutional outcomes (Jackson, 2005)—but likewise that distinct ‘Germanic’ and ‘Scandinavian’ pathways in terms of how these configurations interacted, in turn, with corporate governance factors.

Introducing the notion of institutions as resources raises a further methodological issue about analysing complementarities at the national and institutional level as opposed to firm-level. Strategic complementarities may exist between different firm-level practices (e.g. having a works council and having a certain type of pay system in the enterprise), but national institutions may allow different scope for variation among these firm-level strategies (Brewster et al., 2006). For example, in France some firms have works councils and some not, but in Germany, more large firms have them. So, in France, firms might choose a configuration of practices that ‘fit’ well to the CME model of complementarities, but are also free to choose alternative practices that either correspond to the LME model or which are incoherent. If the degree of institutionalization is weak, lots of heterogeneity may exist across firms to construct locally efficient combinations of institutions. On the other hand, if institutions are more constraining, e.g. ‘beneficial constraints’ on German firms

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4 We are indebted to Wolfgang Streeck and Robert Boyer for this observation.

5 An important element of set-theoretic methods also concerns the more explicit treatment of ‘missing cases’ where certain combinations of institutions simply do not appear, and therefore potential complementarities are not ruled out a priori (Kogut and Ragin, 2006).
(Streeck, 1997), those firms may be unable to adopt a set of practices along an alternative mode.6

Complementarities may actually operate most clearly at the level of firms, whereas institutions provide different resources for achieving complementary sets of business practices that may then give different advantages across sectors. These considerations have important implications for understanding the overall importance of complementarity for institutional change. Simplifying a bit, one can juxtapose two approaches: the equilibrium-functionalist and the historical-political. In the first approach, institutions represent self-enforcing equilibria where complementarities help stabilize an institution by increasing the value of that institution to actors. In particular, if institutional types are seen as dichotomous, complementarities suggest that only a limited number of combinations will be viable, self-reinforcing options. As already noted, most CC literature approximates this conception and stresses two possible patterns of institutional change—marginal institutional change which falls short of a fundamental change in the underlying economic logic, or wholesale change in the system. The latter scenario comes into play if one subsystem is so radically altered (i.e. breaks down) that—because of strong complementarity—it brings on radical institutional changes in other subsystems in order to establish new equilibriums and complementarities. In short, systemic complementarities generally prevent radical change; but if one element of the system changes, the whole system of institutions would become unstable.

The historical-political approach rests on a conception of institutions as resources and continuously evolving in non-trivial ways. In many instances smaller or gradual changes add up over time to major institutional transformation (Pierson, 2004; Streeck and Thelen, 2005). In this approach, complementarities are likely to shape institutional change, but not in ways easily measured or usable for predicting the direction of change. This is so for several reasons: First, if the exact meaning of an institution is always subject to some interpretation or manipulation, then the complementarities that derive from that institution are also somewhat ambiguous. Thus, actors may ignore complementarities because they cannot be cognitively assessed or they may shift at unanticipated moments. Second, this approach tends to view complementarities as evolving through an evolutionary, trial and error process rather than by a one-off moment of institutional design (Crouch et al., 2005).

Similar to the historical-political view, economic theory has also suggested a dynamic version of institutional complementarities (Aoki, 2005). The

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6 As Streeck suggests, freedom from institutional constraint is not always good, since firms are often unable to overcome collective action problems unless all firms act more-or-less homogeneously.
Momentum Theorem (Milgrom et al., 1991) broadly suggests that even if the initial level of competence conducive to an institution X is low, the presence of complementary institutions and/or policy in other domains may amplify the impact of a policy intended to induce X, and that once a momentum is initiated, X may gradually evolve as a viable institution—and vice versa. Put in somewhat different terms, complementarities among specific institutions are historically constituted and dynamically variable as actors develop new competencies (or loose them) and learn to use institutions in new ways (Morgan and Kubo, 2005).

A similar consideration applies to power. Institutional stability presupposes a certain balance of power among different groups, but similarly institutions may themselves affect that balance of power over time. Changes in power may thus help stabilize or undermine particular configurations of institutions. Shifts in power may lead to different linkages between institutions, since powerful actors may be able to bundle institutions in new ways or coordinate their strategic preferences in new ways across different institutional domains (Aoki, 2005).

These different views of complementarities have important implications for understanding change. Scholars within the equilibrium-functionalist perspective are more likely to consider institutional change in terms of the potential costs and benefits of institutional change. Such an exercise has clear limitations. As suggested above, the costs and benefits of different institutional combinations are not static, but evolve with the capacities of actors (Crouch et al., 2005). Moreover, a given set of institutions may generate different levels of complementarity for different sets of actors and it is not a priori clear whose complementarities will matter (Wright et al., 2004). Hence, the ‘snapshot’ equilibrium approach misses the historical institutionalist point—if institutions are constantly evolving, so too are the complementarities. ‘Measuring’ complementarity may only be possible post hoc, since any model of complementarity requires assumptions about the particular economic functions or purposes for which actors use the institutions. Complementarity ultimately resides not in the institutions themselves but how people use them over time, which may change in unintended ways (Jackson, 2005).

Likewise, national economies are often characterized by tensions between different institutions or domains, i.e. institutions following different logics of action. Tensions between institutions may have adverse economic effects, but also serve positive economic functions by creating space for diverse organizational patterns and maintaining requisite variety for future adaptation in a population of firms (Stark, 2001; Crouch, 2005). Crouch argues that, in fact, complementarity may mean two institutions follow different structural logics, providing different patterns of competences, and act as checks and balances on one another. The advantage of this form of complementarity (or ‘tension’) is that it facilitates innovative action by actors by enabling them to draw on
diverse capacities and make new combinations of institutions. Following this logic, innovation may also be facilitated by looser institutional coupling (i.e. weaker complementarity in the conventional sense) and weaker complementarity between different institutional domains may in fact be more conducive to overall systemic stability than high complementarity (Deeg, 2005).  

In sum, complementarity is only one of many dynamics that affect institutional stability and change. Other sources of stability include sunk costs, asset specificity, coordination problems, political veto points and positive feedback (path dependency) that do not necessarily reflect complementarity (Pierson, 2004). Still, at the meso-level the CC literature needs to advance its conception of the character and role of institutional complementarity in explaining the numerous—and in some cases far-reaching—changes in advanced political economies. It cannot be assumed a priori that political economies falling within the same general type of capitalist system have the same level or types of complementarities across the institutional domains or that tensions or contrasting logics inherently undermine performance. If institutional complementarities are more elusive, variable, and less constraining on the strategic choices of economic actors than has been generally assumed, it may be unwise to base distinctions among national models of capitalism only on the existence of particular complementarities. Thus, while complementarity remains a powerful and central idea for the CC literature, the actual strength and robustness of performance effects must be subject to more sophisticated empirical tests. We have argued that set-theoretical methods and the ‘varieties of firm’ perspective appear to be two fruitful avenues for research.

5.3 Macro-theory of change in capitalist systems

The macro level of the CC literature faces two general challenges. The first is to develop further existing ideas about how the structure of the state and pattern of formal rule-making systems structure the process of change. In particular, the concern is with formal institutions that are created or enforced by formal political authority. The second is to reexamine the criteria and theoretical foundation for assigning different economies to various categories of capitalism in order to more clearly explain when and how a national political economy may be transformed from one type of capitalism to another.

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7 For example, Herrigel and Wittke (2005) found a common trend toward more heterogeneous supplier relations in both the US and Germany, despite their different institutional settings, such that German firms also cultivate supplier relations favoured by the US model and vice versa. The authors find that firms will use prevailing institutions to solve certain governance problems, but will also attempt to innovate ‘outside’ those institutions to resolve other sets of problems.
Regarding the first challenge, numerous hypotheses already exist. Hall and Soskice (2001) posited briefly that CMEs would be favoured by (complementary with) consensual political systems characterized by coalition governments and multiple veto points (and often corporatism). The reasoning is that such systems will be more likely to inhibit change in the institutions that sustain the various non-market forms of coordination which characterize CMEs. Conversely, states with concentrated political power (majoritarian) systems may find it easier to introduce market-oriented policies (and reforms) that reinforce the comparative strengths of LMEs. This leads them to conclude that in CMEs major economic actors will respond to external market pressures through incremental adaptations that preserve their established patterns of strategic coordination (and hence their competitive advantages).

Amable (2003) extends this by introducing first the argument that socio-political groups are the key political actors negotiating over institutions. The structure of the political systems affects the institutional equilibrium these groups arrive through its ability to affect the distribution of influence of different groups (whether by allocating them more resources or providing more veto points for weaker groups to block change). The major institutions governing the political economy will reflect the preferences of the winning coalition or dominant bloc. Institutional change comes from a change in the pay-off distribution of existing institutions or a change in bargaining power. From regulation theory Amable (2003, p. 66) introduces further the notion of institutional hierarchy: ‘The notion of hierarchy insists on the relative importance of one or a few institutions for the structure of complementarity and the dynamics of the institutional architecture as such.’ Thus, the logic of the dominant institutional domain is expected to determine (at least in large part) the logic of other domains so as to achieve complementarity across them. Which domain is dominant and which institutional logic it follows will reflect the preferences of the dominant socio-political bloc.

While basic agreement exists that institutional change is conditioned strongly by the political structure and processes, scholars diverge over the actual role of the state itself. While some analysts such as Hall Soskice and Amable treat the state as an arena through which groups compete over their institutional demands, others see the state as an actor in its own right that can affect these institutional outcomes them (Schmidt, 2000; Molina and Rhodes, 2006).

Political dynamics have indeed slowly been incorporated into models of capitalism. In terms of partisanship, Amable (2003) shows that LMEs display right party dominance and CMEs left, whereas several new and important works show a paradoxical but broad pattern of left parties promoting liberalization in finance and corporate governance in Europe (Cioffi and Höpner, 2006). Likewise, political system characteristics have been incorporated into
comparative analyses (Whitley, 2005). Here, there has been a trend to use as the key analytic variable the concentration of political power within the system, i.e. the extent to which a political system exhibits a majoritarian or consensual character (Gourevitch and Shinn, 2005; Hall and Thelen, 2005).

The second macro level challenge is to develop criteria and theories for when a national economy will, or has, changed from one type of capitalism to another. This is a difficult challenge, since all national political economies are generally viewed as being to some degree mixtures of institutions ascribed to different ideal-typical models of capitalism. Indeed, a growing literature argues that most national economies are actually in a period of hybridization—a process that involves combining institutions adopted from outside a given context with existing ones. Hybridization may, in fact, simply suggest that the normal form of change is incremental combinations of old and new (Zeitlin, 2000). But it may result in ‘new’ systems, logics or sets of complementarities that require revisions of existing typologies. As such, the concept of hybridization requires further specification—what is being mixed with what, and how is the result distinct? For example, a hybrid model of corporate governance has been interpreted in terms of capital market-oriented external governance, but relationship-oriented sets of internal relationships between managers, employees and long-term business strategies (Aoki et al., 2007).

These issues are further complicated by the fact that while individual institutions may change, the behaviour of actors may not be fundamentally altered; in fact, change may be undertaken to help stabilize prior practices and relations among actors. Conversely, stable institutions may also engender different behaviour over time. Despite important continuities, accumulated adjustments may mean the system has taken on a distinctly different logic—either a shift to another known ‘type’ of capitalism or perhaps even a novel logic that would require revision of our typologies.

Another way of assigning nations to a particular type of capitalism or assessing change is to focus on the general pattern of coordination in the economy, not the existing institutions per se. One key question is whether the dichotomy between coordinated and liberal market economies still remains intact. Hall and Thelen acknowledge a general trend toward liberalization, which has a great impact on coordinated market economies in particular. However, accumulated institutional changes in CMEs are interpreted as a reconfiguration of the terms of strategic coordination among actors, rather than an abandonment of this in favour of market coordination. Thus, CMEs and LMEs remain fundamentally stable and distinct. Here, they reemphasize more explicitly the original framework’s focus on the function of those institutions in shaping the character of coordination among actors. Hence, institutions can change, but the character of coordination does not necessarily change as a result because
actors can use the new and old institutions in ways that sustain previous relationships and behaviours. Hence, national economies are distinguished by the character of coordination, not the particular institutions they contain.

The likelihood of systemic change is of course also conditioned by the typology of capitalism one uses. As argued above, the two-category typology of Hall and Soskice increasingly appears too simple given the much higher number of logical combinations of characteristics possible and the limited diversity of real cases (Kogut and Ragin, 2006). An intriguing analysis by Paunescu and Schneider (2004) used institutional indicators highlighted in their typology to analyse the clustering characteristic across most OECD countries. They find a universal movement across all countries toward the more liberal end of these institutional indicators. Many countries have become mixed types and a few have even undergone a wholesale conversion from CME to LME. There are already typologies with three to five basic types of capitalism which are more likely to capture the subtle but meaningful differences among capitalist systems. But this is clearly contentious in the literature and must be at the centre of future research.

6. Conclusion

For some, the changes among different national models of capitalism and the conceptual gaps highlighted in this paper may amount to a resounding critique—if not rejection—of the utility of national typologies. Indeed, many scholars within this literature have eschewed typologies for a focus on different mechanisms of governance (Crouch, 2005) or analysis of particular national cases. However, distinct national varieties of capitalism still make sense if each national economy continues to exhibit a particular or distinctive and identifiable logic of action leading firms to differ more between countries than within them. While the particular version of complementarities suggested, for example, by the parsimonious theory of Hall and Soskice has been widely criticized, the general notion of complementarities as interdependence within broader configurations of institutions remains powerful. As such, we argue that typologies and comparisons of capitalist diversity will continue to make valuable contributions by focusing attention on important interactions across institutional domains. This kind of contextualized and institutional comparison has strong implications for understanding the prospects and problems of institutional reform or borrowing institutions across countries.

Advancing the CC literature does require stepping back from some of the initial conceptual claims that helped differentiate this field from other theoretical perspectives—the notion of institutions as constraints, complementarities among institutions and stable nationally organized models. The pendulum has swung toward a more sociological and ‘constructivist’ view of institutions as
resources, a dynamic view of complementarities in light of the multiple economic functions that institutions may take on, and capitalist diversity as involving multilevel governance and heterogeneity of practices across firms. We have argued that it is essential to pursue and extend this agenda for more dynamic analysis of capitalist diversity. But we also hope that this agenda stays loyal to some of the other basic insights of institutional analysis—that institutions are collective phenomena external to and constraining on individuals, that institutions do matter for economic performance and that states have a central role in the enforcement of institutionalized behaviour.

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