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Varieties of Capitalism: A Critique
Variétés du capitalisme : une analyse critique
Variedades del capitalismo: una crítica

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Résumé de l'article

L'analyse des « variétés du capitalisme » (VdC) est devenue l'approche dominante en analyse politique comparée et bénéficie d'un degré élevé d'attention et d'application dans des disciplines extérieures à la science politique et la sociologie. En effet, cette approche a connu un succès notoire dans le domaine des relations industrielles et des relations d'emploi comparées. Cet article propose une évaluation critique de l'importance du paradigme VdC dans ce secteur. Entre autres, il y est soutenu que l'approche VdC, telle que présentement articulée, a peu à apporter aux spécialistes de notre domaine parce que ses concepts théoriques fondamentaux et ses postulats méthodologiques ne permettent pas la prise en compte du changement.

L'article débute par un résumé des problèmes courants rencontrés par les chercheurs en économie politique et en relations industrielles comparées lorsqu'ils cherchent à rendre compte du changement à l'intérieur des contraintes posées par le paradigme VdC. Ici, l'accent est mis sur les limites imposées lorsque le niveau national est privilégié ainsi que les problèmes engendrés lors d'un recours important à une méthodologie statique comparée, elle-même imprégnée des concepts d'équilibre et de chocs exogènes. Puis, l'article va au-delà de ces limitations courantes reconnues et soutient que l'importation d'une terminologie en provenance de la théorie économique néoclassique — à partir de laquelle l'énoncé initial du VdC établit sa référence fondatrice — a un effet réducteur et ajoutent encore plus de confusion à la démarche d'analyse comparée, notamment à cause de l'usage de la notion d'avantages comparées, de la théorie néoclassique de la firme d'Oliver Williamson, du recours à la distinction entre marché parfait et imparfait en économie néoclassique ainsi qu'à cause de la distinction floue entretenue entre firmes, marchés et réseaux.

En conclusion, nous soutenons que l'approche VdC, de par son accent étroit mis sur la firme et ses problèmes de coordination, sert à légitimer l'idée que les relations industrielles traditionnelles mettent l'accent sur les relations de travail (entre employeurs et travailleurs) ainsi qu'à cautionner la place de choix dont jouit maintenant la gestion des ressources humaines (GRH) dans les départements de relations industrielles qui existent encore sous cette appellation. Ultimement, l'engouement pour le paradigme VdC en relations industrielles comparées cons-tituerait un déplacement normatif nettement négatif.

Varieties of Capitalism: A Critique

Travis William Fast

The routine problems researchers in comparative industrial relations have encountered when operating within the constraints of the VoC paradigm are well known. Methodological nationalism, when coupled with comparative statics, yields both insufficient details of processes operating at the micro level (region, sector, industry) and at the macro level (globalization). The reliance on ideal-typical models operating within an institutional equilibrium renders it difficult to account for national change. Further, the importation of terminology from neoclassical economic theory; namely, comparative advantage, the neoclassical theory of the firm, the distinction made between (im)perfect market competition in neoclassical economics and the ambiguity in the distinction between firms, markets and networks further serves to constrain and add confusion to the comparative IR enterprise.

KEYWORDS: Comparative political economy; comparative industrial relations; varieties of capitalism; theory of the firm; industrial relations theory.

Introduction

In 2002, I attended and presented at a conference at Wakeforest University where the recently christened Varieties of Capitalism (VoC) research program as elucidated in the pages of the *Varieties of Capitalism: The Institutional Foundation of Comparative Advantage* edited by David Soskice and Peter Hall (2001) was presented to a range of representatives from the different schools of comparative political economy. None of the antagonists to the VoC paradigm, at that time, were making a crude, globalization induced, institutional convergence on a '(neo)-liberal market economy' argument. Rather they were attempting to make at least two interventions. First, as Kathleen Thelen (2014) has subsequently noted about the persistent critiques of the VoC, the question being asked was and remains not so much about the persistence of a variety of national clusters of institutional arrangements, but, rather, the qualitative outcomes being generated by those institutions. Second, given the evident trends at that time from declining labour income shares, an increase in levels of unemployment, the rise of part-time non standard labour contracts, de-industrialization, the waning power of organized labour, the explosion in the pace of financial governance and, a resurgence

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of American leadership of the advanced capitalist zone, several participants argued that a qualitative shift had occurred in the organization and dynamics of accumulation that had once characterized the post-war political economy of advanced capitalism. In short, these trends, from the mid-1970s onward, in combination with the liberalization of trade and investment flows had or were in the process of undermining the foundation upon which the various post-war national compromises were struck provoking a variety of reactions depending on the institutional frameworks and the ability of agents to accommodate or confront those challenges (Coates, 2005).[1] Jointly the critics of the VoC paradigm also made note that the departure of the VoC paradigm from the traditional themes of comparative political economy with history, class, conflict and distribution in favour of comparative statics, firms, coordination and stability marked-off an economistic rendering of welfare state institutions and labour market programs. Indeed, even unions were to be assessed in terms of a functional fit with the firm's ability to solve their coordination problems.[2] Whatever the merits of these observations and initial critiques, and as subsequent debates and commentaries have since affirmed, the main protagonists of the VoC were and seemingly remain preoccupied with demonstrating the continuity and viability of social democratic and Christian democratic modalities of governance and accumulation against the then dominant and crude convergence hypothesis maintained by would-be neoliberals like Francis Fukuyama, (1989; 1992) and neoclassical growth theorists alike.[3]

Some decade and a half later, the VoC has become the dominant approach in comparative political economy and enjoys wide application and attention in disciplines outside of political science and sociology. Indeed, the VoC approach has enjoyed much attention in comparative industrial/employment relations (Kaufman, 2004; Barry and Wailes, 2005; Hamman and Kelly, 2008; Barry and Nienhueser, 2010). This article is critical of the importation of the VoC paradigm into comparative IR. *Inter alia* it is argued that the VoC approach *as it is presently configured* may have little to offer IR, can teach scholars because its basic theoretical concepts and methodological priors militate against accounting for change. This article has three sections: two main theoretical sections and a concluding section. The first section provides an overview of the, by now, routine problems researchers in comparative political economy and comparative industrial relations have encountered when attempting to account for change when employing the VoC paradigm. Here I focus on the limitations of privileging the national scale, and the problems engendered by a heavy reliance on a comparative statics like methodology infused as it is with the concepts of equilibrium and exogenous shocks. In the second section, I go beyond these routinely recognized limitations and argue that the importation of terminology from neoclassical economic theory, of which the original VoC statement makes foundational reference; namely, comparative advantage, Oliver Williamson's neoclassical theory of the firm, the use of the distinction made between (im) perfect market competition in neoclassical economics and the fuzzy distinction made between firms, markets and networks further serves to constrain and add confusion to the comparative enterprise. In the concluding section I argue that although IR has much to offer the VoC paradigm, comparative IR has little to gain from employing its dichotomous ideal-types: liberal market and coordinated market economy (LME/CME) and its associated methodology and concepts.

Comparative National Statics, Exogeneity and Equilibrium

In its inception the VoC research program sought to describe the national whole not from the (specific) micro, nor from some general set of claims about the dynamics of global capitalist accumulation. Rather they honed in on and attempted to explain the rational organization of institutions in a coherent national space without recourse to the whole—if there is a whole it is the ideal-typical national container. Given the particular configuration of political and ideological forces at work at the turn of the millennium, this was a fair enough move: it was both pragmatic and conceptually neat. Privileging the national space allowed, and continues to allow VoC practitioners to evade global developments in capitalism—that is to play down the logics of capitalist accumulation beyond national borders—thereby extricating national capitalisms and firms of significant responsibility for the ‘exogenous shocks’ to the variety of national systems. This move fits well in many respects with pluralist social science practice and its partial derivatives in industrial relations (Ackers and Wilkinson, 2008).

However, at an epistemological level there is nothing forcing researchers in the VoC paradigm to base their ideal-typical models on national cases. Rather, the origins of methodological nationalism must be located in the historical milieu in which the VoC was gestated. As was noted in the introduction, at the turn of the 21st century the contours of globalization were much contested and the central concern of that time was over whether or not the forces of globalization had a dominant convergent or divergent logic. In the formal foundational presentation it was clear in the edited volume by Hall and Soskice that they had situated the VoC paradigm against the tendency at that time to view globalization as a homogenizing force. The choice of national models was by and large a function of the need to generate enough rough grained detail at the national level to illustrate the degree of differences between the national models and hence against the thesis of a unilateral convergence on a (neo)-liberal model of capitalism.

Nonetheless, a national scale does not always square very well with the more concrete reality of sectors, regions and sub regions of national economies

(Crouch *et al.*, 2009; Lane and Wood, 2009). The problem of scale is endemic to any ideal-typical comparative framework as it will necessarily involve problems of aggregation and disaggregation. Put more bluntly, it invites a series of (de) compositional fallacies. In mainstream economic analyses these compositional problems are finessed by the use of representative agents: the representative firm and consumer for example, which can be effortlessly modeled at the micro, meso, and macro levels precisely because these representative agents have been rendered homogeneous with very carefully specified preference functions in order to behave tractably in economic models (Gordon, 1990; Kirman, 1992; Mirowski, 2004). The applied ethnographic and ethnocentric nature of much of industrial relations' normal scientific output does not, however, easily allow for this type of stylized a-social and a-spatial theory (Hyman, 2004).

For example, when Barry and Nienhueser investigated labour relations in the German aviation industry, in the wake of liberalization and low cost competition, they concluded:

> This paper has noted an apparent contradiction in the employment relations characteristics of the German aviation industry. In this industry, ER practices do not reflect the tendencies of an exemplar CME national context to promote a high level of coordination through non-market relationships, and function so as to 'take wages out of competition'. Instead ER structures are devolved to the establishment level and there are few examples of the types of industrial coordination that are typical of the German model of employment relations (2010: 226).

Similarly, the VoC framework also requires a significant amount of reductionism when large complex regionally and linguistically separate national federations are examined. A leading G-7 example is Canada. In highly decentralized, spatially vast federations like Canada, the sectoral profiles of the regions are so diverse and disconnected (investment and trade flows are more intense with the US than they are between the provinces) and the relationship between unions, government and firms varies substantially (with the province of Alberta at one extreme and that of Quebec at another) between provincial jurisdictions that the ideal-typical classification of Canada as an LME is only superficially informative. This despite sharing broadly similar labour relations regimes and regulatory frameworks (based on the *Wagner Act*) and all subject to the juridical interpretations of the Supreme Court of Canada (Graefe, 2014). These kinds of problems arise whenever in-type comparisons are made, i.e., between cases within an LME or CME.

Yet, it is not only when the finer grained detail of a national case is probed that the limitations of the national 'container' are evidenced. With the formation of regional blocks of nations such the European Union and the North American Free Trade Area and the tendencies associated with globalization, the ever increasing liberalization of trade and investment flows serve to both constrain and enable national actors such as firms and trade unions in differential ways. It is one thing to argue that national capitalist types demonstrate a robustness and quite another to ignore these larger transnational forces (Peck and Theodore, 2007). Taking the EU as a case in point, Marginson (2015), has recently investigated the dynamic interaction between the trend towards ever increasing *effective* decentralization of bargaining in Northern Europe, the European mechanisms for coordinating bargaining and the outright assault on collective bargaining in Southern Europe in the wake of the economic crisis. What is interesting about this study are not the observations about the ongoing erosion of centralized bargaining in the CMEs, as this is by now a well-established and frequent observation (Streeck, 2009; Thelen, 2014), rather it is in demonstrating the way in which the EU has not encouraged, and at times negatively impacted, cross-border coordinated bargaining in Northern Europe. At the same time the ECB, along with the IMF, forced governments in the South of Europe to dis-articulate their national collective bargaining systems, hence undermining the basis for future European wide coordination.

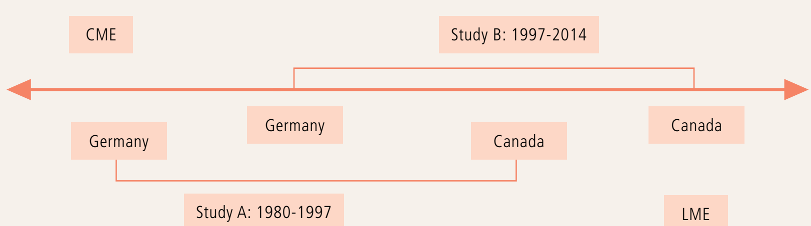
> [F]ar from embracing measures which might facilitate cross-border coordination of collective bargaining, the European institutions, and the national governments which have responded to external pressure, are actively intervening to undermine a crucial precondition, namely effective articulation within national collective bargaining systems. They are doing so in the misguided belief that this will facilitate the internal devaluation deemed necessary to secure economic adjustment (Marginson, 2015: 111).

From a macroeconomic perspective—the European macro-economy—this is particularly damaging because the adoption of the Euro meant that in absence of federal transfers targeted at the unemployed and depressed sectors, labour markets become the primary mechanism of macroeconomic adjustment. Taking this argument a step further, those states that adopted the Euro tacitly joined a federation which lacked the kinds of federal spending power necessary to counterbalance the regional dimensions of the economic downturn. This left policy-makers in the depressed regions three options, one passive and two active. First, mass labour migration; second, beggar thy neighbour policies via internal devaluation; and, third, austerity. The last two of which are socially and politically destabilizing and ultimately a drag on future economic growth rates for the EU as whole. The point to be stressed here is that the EU and its macro economy should not be treated as an exogenous force to the regional states that comprise it. Doing so is in many respects akin to treating the Bank of Canada as exogenous to the provincial economies: it may be independent from the provinces but it is not exogenous from them. In short the EU, its institutions and its macroeconomic policies need to be endogenized.

The static comparative nature of the Varieties literature has been well articulated (Coates, 2000; Albo and Fast, 2003; Fast, 2005; 2012; Streeck and Thelen 2005; Streeck, 2009; Thelen 2014). The basic observation being that one of the problems with the VoC research program is that it attempts to measure the range of difference between national capitalisms rather than the evolution of the models themselves over time. This is partly how the VoC paradigm has gilded the Lilly, so to speak, in favour of the non- convergence of the national models hypothesis. If, for example, both Canada and Germany were moving towards more (neo)-liberalized economies over the last thirty five years, it would not show up in the results because the results being given were for the distance between the two countries at any given observation and not the direction of movement between observations. Thus, if Canada became more (neo)-liberal and so too did Germany during the same period of time, but to the same extent, the distance between the two would remain the same. In Table 1, I have graphically illustrated the potentially misleading nature of employing comparative statics. Imagine that two studies are conducted over two different time periods using the two ideal cases of Canada and Germany. In Study A and B, I conclude that both Canada and Germany conform, in major respects, to the two ideal types. What is missed by these two snapshots, however, is the degree to which both model cases moved further along the continuum towards the LME poll.

What would, therefore, be lost is an accounting for the direction of change and the processes responsible for that change. But a comparative statics methodology alone cannot explain why researchers using the VoC apparatus have not tended to focus on change. In the example given above, it is entirely possible to use comparative statics to provide evidence of change and the direction of change by simply comparing the results of Study A and Study B. Something akin to this was accomplished by Wailes when he revisited the conclusions of an earlier comparative study that he and Barry (2005) had conducted on industrial relations in Australia and New Zealand. His main finding was that although national institutions matter "there is a need … to go beyond a focus on institutional arrangements

TABLE 1
Static Comparisons



and to examine a broader range of factors that shape the relationship between international economic change and national patterns of employment relations" (Wailes, 2011: 300).

I argue the issue is deeper than just the problem of comparative institutional statics; rather, the problem is intimately tied to the idea of equilibrium at play in the VoC paradigm. The presumption of a complete complementarity of institutions is essential to the Varieties formulation. It is required to ensure a systematic inertia and path dependence which continuously reconstitutes the ideal types in their essence if not basic form (Fast, 2012). This creates an orthodox economic view of equilibrium in which although external shocks may perturb these bundles of national coordinating institutions in the short run, they will nevertheless tend to push the system back towards its 'natural' equilibrium path over the long run. However, as Bruno Amable (2010) has observed, there are other notions of equilibrium, for example, a stable equilibrium which is characterized by perpetual change (561). In post-Keynesian economics, we find unstable equilibria, multiple equilibria and underemployed equilibria. As Amable notes, "a simple dichotomy between equilibrium and change is sometimes more misleading than enlightening" (*Ibid.*). I would argue however that this simple dichotomy between equilibrium and change is the function of an importation of the dominant static, long term full employment equilibrium metaphor from orthodox (neoclassical) economic theory.

Explicitly advocating against other traditions in comparative political economy, VoC scholars argued that "[i]n contrast to the large literature focused on national labour movements, varieties of capitalism analyses assume that firms are the central actors in the economy whose behavior aggregates into national economic performance" (Hall and Gingerich, 2004, 7). Presumably, the desire to provide adequate micro foundations for comparative political economy stems from a desire to identify where agency in the system resides even if constrained/enabled by broader environmental and systemic considerations. When it actually comes to describing the causal relation between the micro, meso, and macro levels of analysis (firms, networks and markets: as the three mechanisms of coordination), VoC scholars have tended to produce 'thick descriptions' of the relational networks in which firms are embedded. But they have not tended to locate firms, networks or even national political economies at the causal centre of change.

Perhaps owing to the neoclassical legacy in Williamson's theory of the firm (as discussed in the following section), firms act as agents of reactive change to exogenous shocks: "deliberative institutions can enhance the capacity of actors in the political economy for strategic action when faced with new or unfamiliar challenges. This is far from irrelevant since economies are frequently subject to exogenous shocks that force the actors within them to respond to situations to which they are unaccustomed" (Hall and Soskice: 12). And again at the end of their introductory chapter, they write:

> We see national political economies as systems that often experience external shocks emanating from a world economy in which technologies, products, and tastes change continuously. These shocks will often unsettle the equilibria on which economic actors have been coordinating and challenge the existing practices of firms. We expect firms to respond with efforts to modify their practices so as to sustain their competitive advantages, including comparative institutional advantages. Thus, much of the adjustment process will be oriented to the institutional recreation of comparative advantage (Hall and Soskice, 2011: 62-63).

The implication of the above is that far from bringing firms to the centre of the analysis as active agents, VoC scholars have rather rendered firms as reactive agents passively awaiting exogenous change only to move their national system back towards their ideal-typical equilibrium.

Firms, Markets and Networks

In some sense, bringing the firm and its 'rationality' to the centre of comparative political economy ought to have been a welcome development. After all, undoubtedly large trans-national firms surely represent some of the most powerful actors within advanced and developing capitalist political economies. They uniquely possess both the economic and political resources necessary to operate as systemic actors—agents capable of altering the environment (the national and international system) in which they and others act. Yet, the marriage of a neoclassical micro theory of the firm with a neo-Weberian ideal-typical meso level comparative apparatus in the VoC paradigm creates several anomalies.

From institutionalists like Commons and Veblen through to Marxian political economists, the existence of the capitalist firm is not a mystery: it is the embodiment of social power resting on class relations between workers, managers and owners founded on private property rights juridically mediated by the state. Capitalist firms in the pursuit of a profit are the institutional prerequisites of capitalist markets. Markets are the contractual space of the factors of production and the agents of consumption. And both markets and firms are embedded in voluntary yet hierarchical relationships.

In neoclassical economics, however, the capitalist firm is a theoretical anomaly that needs explaining. The problem can be described thus: if markets are perfect, that is to say, market prices incorporate all known costs and future costs, why do firms exist? This is Coase's (1937) original formulation of the problem. Coase then goes on to argue that markets are in fact imperfect principally because of what he called transaction costs: that is, re-contracting or rehiring factors of production on a daily basis involves high service costs. The firm, following Coase, then exists to extend the contractual terms for extended periods of time: hence the labour contract and the financing arrangements. Two things of note here. First, Coase is implicitly drawing attention to the uncertainty of the future. Contracts made today for today cannot necessarily be trusted for tomorrow: workers may go home; financiers may put their capital elsewhere. Second, the firm exists to contractually bind the factors of production in a hierarchical relationship in a command and control type setting as opposed to 'voluntarist' market relations. For neoclassical economists, the market is viewed as an egalitarian or horizontal space of power: individuals freely entering into and out of mutually agreed upon voluntary contingent contracts. Following Coase, the firm exists to minimize on these contingent costs by binding the factors of production—land, labour, and capital—into a hierarchical system of vertical control. As such the firm is an institutional fix to an existential market failing: that of control.

Interestingly, Williamson (1981), like Coase, set out to explain the existence of the firm (hierarchies) on the basis of transactions costs rooted in the problems of incomplete contracting but in the context of bounded rationality. Thus, the firm is explained as a hierarchical institution of power for overcoming, or at the very least managing, the problems of (re)contracting in the existential context of bounded rationality and a fundamental uncertainty characteristic of markets. Hence, on the Williamsonian account, the firm is both an *ex ante* response to market failures/inefficiencies and an institution for managing *ex post facto* change (Foss, 1994). Yet, in Hall and Soskice's formulation, these same types of problems plague 'non-market' modes of coordination, i.e., these problems plague firms in both their internal contracting and in their external relations with other non-market coordinating institutions (associational networks).

From the start, the explicit avowed goal of Hall and Soskice (2001: 4) was "to bring firms back into the center of the analysis of comparative capitalism." Yet, their project was much more ambitious than simply making the firm the centre of comparative political economy. Hall and Soskice rejected any a priori notion that 'markets' provide a superior solution to the coordination problems faced by firms. The point is made explicitly by Hall and Soskice when they write: "In 'negotiated economies' [CME] such as these, adjustment is often slower than it is in economies coordinated primarily by markets; but markets do not necessarily generate superior outcomes" (65). Moreover, they also wanted to import the new 'microeconomic' insights of Williamsonian neoclassical institutionalism and game theoretic modes of analyses into the contemporary comparative enterprise (Hall and Soskice, 2001: 5). As with Williamson, the VoC scholars are wont to explain the firm as an institution that arises to manage and coordinate *ex post* changes that arise because of opportunistic behaviour and the existential problem of bounded rationality. Following Williamson, they initially make a rigid boundary between the vertical, hierarchical command structure of the firm and the horizontal and voluntary nature of markets.

> We take the view that critical to these [profit seeking activities] is the quality of the relationships the firm is able to establish, both internally, with its own employees, and externally, with a range of other actors that include suppliers, clients, collaborators, stakeholders, trade unions, business associations, and governments. As the work on transactions costs and principal–agent relationships in the economics of organization has underlined, these are problematic relationships. Even where hierarchies [firms] can be used to secure the cooperation of actors, firms encounter problems of moral hazard, adverse selection, and shirking. In many cases, effective operation even within a hierarchical environment may entail the formation of implicit contracts among the actors; and many of a firm's relationships with outside actors involve incomplete contracting (Hall and Soskice, 2001: 6).

Yet, as hinted at in the above quotation, when distinguishing firms from the networks in which they are embedded, Hall and Soskice account for, and characterize, those networks in the same manner: that is, as institutions for managing and coordinating *ex post* outcomes. In a very real sense, then, for Hall and Soskice, the network is reduced to the same foundational logic of the firm: markets and networks are nothing other than alternative coordinating mechanisms which firms may more or less rely upon. When, for example, outlining the key differences between their two polar ideal types—CMEs and LMEs respectively—, Hall and Soskice argue the following:

> Market relationships are characterized by the arm's-length exchange of goods or services in a context of competition and formal contracting. In response to the price signals generated by such markets, the actors adjust their willingness to supply and demand goods or services, often on the basis of the marginal calculations stressed by neoclassical economics… In coordinated market economies, firms depend more heavily on non-market relationships to coordinate their endeavors with other actors and to construct their core competencies. These non-market modes of coordination generally entail more extensive relational or incomplete contracting, network monitoring based on the exchange of private information inside networks, and more reliance on collaborative, as opposed to competitive, relationships to build the competencies of the firm. In contrast to liberal market economies (LMEs), where the equilibrium outcomes of firm behavior are usually given by demand and supply conditions in competitive markets, the equilibria on which firms coordinate in coordinated market economies (CMEs) are more often the result of strategic interaction among firms and other actors (2001: 8).

This seems to be a cumbersome formulation given that in the original formulation by Coase and Williamson, firms arise to fulfill the need to overcome and manage the shortcomings inherent to markets with respect to coordination. In the VoC formulation, these failings are so pervasive that they plague even non-market institutions of coordination (firms and networks).

As such, although VoC scholars start out with the Williamsonian account of the firm with its strong dividing line between firms and markets, they almost immediately begin to blur that distinction because in their account firms, networks, and markets are all viewed as coordinating mechanisms for managing *ex post* change and each is plagued by the problems of incomplete contracting in the existential context of bounded rationality and fundamental uncertainty. It would thus appear that for VoC scholars, the distinction between the three coordinating mechanisms is the difference in the types of arrangements each coordinating mechanism allows and not necessarily the surmounting of market failures.

Hence, their theory of the firm is in many respects similar to the theory of markets, and associational networks. Using Hall and Soskice's formulation, trade unions, for example, can be theorized in a selfsame manner. On the one hand, trade unions can be said to exist to police the opportunistic behaviour of managers and owners and, on the other hand, unions provide an institutional mechanism for managing unforeseen change. As descriptively true as this may be, it is also true for most institutions. What is lost by theorizing at this level of abstraction is a strong social account of the specific historical origins of unions and the evolving intra and inter-class nature of their struggles over time.

Moreover, it needs to be explained why markets in liberal jurisdictions are not characterized by the same degree of transaction costs and fundamental uncertainty and hence why in LMEs firms can depend more heavily on "the price signals generated by such market."[4] In essence, what the VoC scholars have attempted to do is make transaction cost economics more relevant to CMEs than to LMEs with little rationale as to why. This is not a trivial point. At the very least VoC practitioners need to explain why markets in LMEs do not produce the same economic pressures to form "these non-market modes of coordination." In both Coase's and in Williamson's original formulations, it is precisely because all markets are characterized by transaction costs that firms exist. If then, in CMEs an extra layer of institutional arrangements (networks) come into being, which are neither of the firm nor of the market type mechanism for coordination, to deal with the inherent limitations of markets, it ought to be explained why these same pressures do not arise in LMEs. This is especially so given that *the transaction cost theory of the firm was developed specifically in the context of the experience of American capitalism* and the formation of large hierarchical institutions of command type control—the corporate firm.

It is true that Varieties scholars (Hall and Soskice 2001; Hall and Gingerich 2004; Hall and Thelen, 2009) have consistently pointed to the difference between the depth and breadth of capital markets and stock market capitalization as a significant push factor. In LMEs goods and services markets, capital markets and the degree of stock market capitalization are said to be so extensive that effectively the market is more liquid and thus more conducive to short-term contracting without the need for long-term strategic coordination because the markets are effectively so deep that there is high probability that firms can find the goods and services that they need ready to hand in the market. While the polar opposite example of Germany and the US may give some credence to this observation, it would, however, be much harder to argue for more peripheral LMEs such as Canada, Australia and New Zealand. And the point here is that, although the VoC paradigm does admit to the varieties of LMEs, *on the basis of the depth of capital markets and innovation* Australia, New Zealand and Canada should have developed as and could be categorized as CMEs not LMEs. But as most scholars agree, Canada, New Zealand and Australia have become if anything more LME like over the past 30 years not less. And this is despite not sharing a similar breadth and depth of domestic capital and product markets in comparison with the US.

The above raises the question as to origins. Why did countries like the US develop these deep extensive markets and countries like Germany did not? Hence, even if we accept the premise of the VoC dichotomy, the interesting question remains unanswered. If CMEs and LMEs are said to be institutionally stable, that is, tend towards their relative institutional equilibrium, how was it that the LME (or CME) model developed in the first place? That is, how and why did the US move from 'thin' capital, goods and service markets to 'deep' markets? In this sense, the Varieties paradigm is insufficiently historical and causally thin.

Further, Hall and Soskice seem to be claiming that not only can national economies be placed along a continuum of one of two ideal types but that the analysis of each model type requires its own economic theory. In other words, the suggestion seems to be that the tools and axioms of the 'conservative wing' of neoclassical (new classical) economics apply to LMEs whereas the tools and axioms of the 'progressive' wing (new Keynesian economics) apply to CMEs. In Soskice (2000: 38) for example, the claim is made: "[I]n important respects the NC [new classical] model can be identified with the deregulated approach to labour markets, whereas unionized labour markets fit more easily with NK [new Keynesian] models." Muddying the analytical waters further, Hall writing with Gingerich (2000) argue that game theory is the appropriate lens through which to analyze CMEs:

> The varieties of capitalism approach draw a distinction between two modes of coordination. In one, firms coordinate with other actors primarily through competitive markets, characterized by arms-length relations and formal contracting. Here, equilibrium outcomes are dictated primarily by relative prices, market signals, and familiar margin-

> alist considerations. In the other modality, firms coordinate with other actors through processes of strategic interaction of the kind typically modeled by game theory. Here, equilibrium outcomes depend on the institutional support available for the formation of credible commitments, including support for effective information-sharing, monitoring, sanctioning, and deliberation (2000: 7-8).

There are both theoretical and empirical reasons to be skeptical of the claim that each model type requires a different strain of neoclassical theory. At a theoretical level, as with the theory of the firm, neither the founders nor the practitioners of the new classical and new-Keynesian strands of neoclassical economics understand their theories as being specific to a type of capitalism. Rather both were developed in an American academic milieu in which, given the universalistic pretension of orthodox economic theory, the respective theory was to be applicable *sans frontiers*. To the extent that there has been a debate between these two traditions, it has not been about which of the base models is applicable to what particular national setting, but, rather, about which describes, in the abstract, the macro-economy. Simply put, new Keynesian and new classical macro *were developed as competing strands of neoclassical economic theory for describing analyzing capitalist economies in general and the American economy in particular*.[5] It is indeed odd then that VoC researchers should seemingly hold each strand out as specific to each extreme ideal type of capitalism.

This is a non-trivial claim because new classical models are built on the assumptions of exogenous technical shocks, perfect competition, perfect information and downward wage flexibility. Does this adequately characterize capitalism in the United States? Bluntly put, how is it that the axioms of perfect competition can be said to well describe LMEs? Is it really true that the core sectors of the US economy such as autos, aerospace, telecommunications, pharmaceuticals, agriculture, tobacco and alcohol, finance and the defense sectors are staffed by numerous passive price takers facing no barriers to exit or entry? Yet this is precisely what VoC scholars are arguing, perhaps inadvertently, when they make reference to new classical macro models as applicable to LMEs. Even leaving the above questions to the side, there is the further question as to what strain of neoclassical macro theory would then apply to cases that sit more towards the centre of the continuum between LMEs and CMEs? Taking the above critiques together, it is not at all clear that the Varieties scholars have managed to provide a coherent account of the micro-foundations which explain the existence of their two ideal-types.[6]

Further, by choosing to put these institutions—markets, firms and networks—on the same abstract plane (as institutions for dealing with *ex post facto* change), researchers using the VoC apparatus are not encouraged to explain why certain institutional arrangements are evolved or co-evolved over others. That is to say, there is not much socio-economic content to the abstractions that underwrite the paradigms core. To this researcher's mind, this is a terminal problem for a theory that resides in the social sciences. Research programs developed for the social sciences ought to promote the development of a heavy sociological and historical content. The importation of neo-positivism and central metaphors—static long run competitive equilibrium—at the core of neoclassical economics and the analytical categories employed are simply too universal (ahistorical and aspatial) to sustain deep political, social and economic inquiry. As Streeck poignantly argues in defence of his book, *Re-Forming Capitalism: Institutional Change in the German Political Economy*,

> Nor can the economic system that I observed and the social welfare state that involves it be described as 'firm-centred' (Hall and Soskice, 2001). What I found and what I document is, rather, a long-drawn process of decay, or decomposition, of an institutional regime that for a while quite successfully contained the forces of the market that worked in the direction of greater inequality, less security, higher rewards for the winners, stronger pressures on the losers—a process that was and continues to be contested, conflicted, confused, sometimes moving two steps forward and one step back, but undoubtedly moving towards rising inequality and social division and exclusion (R-FC, p. 41 f.), and certainly and clearly not even resembling a collective search for ever higher economic rationality (2010: 576).

What Is the Value Added for Comparative Industrial Relations?

I am not here arguing that comparative IR should be ignorant of or refuse to contribute to the dominant paradigm in comparative political economy, rather, I am arguing that the VoC paradigm should not be the paradigmatic 'work-horse' that drives our normal scientific output. As evidenced by the opening salvo—against the hypothesis of a globalization induced convergence—the VoC has been preoccupied with demonstrating national differences. Have IR scholars and practitioners as a community ever doubted this? Indeed, what Bruce Kaufman's (2004) monumental work, *The Global Evolution of Industrial Relations*, makes clear is that in both the objects of its research—national and subnational labour relations regimes and institutions—and in its modes of analysis, IR has been marked by a variety of preoccupations and approaches. In this sense, IR has much to offer the VoC research agenda. As several contributions to comparative IR cited *inter alia* attest, the constant refrain, and echoed by the broader comparative political economy community (Crouch, 2006; Crouch *et al.*, 2009; Lane and Wood, 2009, 2013; Streeck, 2009, for example), is that the ideal-types need finer grain detail and a better appreciation of the social-institutional dynamics of accumulation both at the level of the national model as whole and within and between sub regions and sectors. In this sense, the plurality of research programs that have animated traditional IR have much to offer the VoC paradigm through their various capacities to generate this level of detail.

Comparative IR scholarship also can play a useful role in re-centering the VoC framework away from its firm-centric origins. Just as different contributions in the broader comparative political economy literature have attempted to bring the state and politics (Schmidt, 2009; Howell, 2003), and gender (Estévez-Abe, 2006; Mandel and Shalev, 2009) back onto the comparative capitalisms research agenda, comparative IR/ER can serve to bring national employment relations, and the national particularities of the capital labour relation more broadly, back onto the VoC research agenda not just as an 'and also coordination problem for firms' but rather as significant explanatory variable in the discernment of liberal capitalist varieties.

Lastly, comparative IR/ER can usefully contribute to remedying perhaps the single biggest failing of the VoC approach; namely, its normative commitments. If the VoC paradigm started out as generalized defence of institutional variety in the face of a crude convergence on a (neo)-liberal model hypothesis, it did so in an attempt partly to fortify confidence in, and provide a defence of, the continued viability of third-way social democracy and Christian democratic welfare states. As Thelen (2014) argues, these normative commitments came to be buried under the preoccupation of VoC scholars with the more technical question over coordination capacity. Thus, the critics of the VoC paradigm, who have by and large focused on the outcomes generated by institutions, have an entirely different set of preoccupations than the VoC paradigm as it is presently configured. To speak of and evaluate capitalist varieties against the normative benchmark (economic efficiency and competitiveness is too a normative value) of egalitarian outcomes fits well with the traditional preoccupations of IR pluralism. The insistence that unions, voice, consultation etc..., are values quite independent of their ability to deliver economic efficiency and competitiveness could serve to help re-centre the normative core of the VoC.

As this article makes clear, I am skeptical of the value added provided to comparative IR by the VoC paradigm. What does comparative IR have to gain by making the VoC paradigm either the centre of its critical efforts or of its analytical apparatus in the furtherance of producing its normal scientific output? Here the value added to comparative IR is hard to discern. Comparative IR is by now so multidisciplinary and so multi object orientated (see for example the contributions in Barry and Wilkinson, 2012), most of the substantive and relevant themes and issues that the VoC raises are already being examined by practitioners of comparative IR. Moreover, owing to the dominance of HRM in Anglo-Saxon countries over the last thirty years, firms and their coordination problems form part of our basic curricula and normal scientific output. Similarly, the preoccupation of pluralist industrial relations, which has dominated the field, with its focus on positive sum outcomes generated through cooperative and coordinated collective bargaining hardly needs reminding of the centrality of efficiency and productivity.

In *The Global Evolution of Industrial Relations*, Kaufman (2004b) outlines six variables responsible for the demise of IR in the UK and North America.[7] As this article has argued, on fully three out of the six variables he identifies—the theoretical imperialism of neoclassical modes of analysis, neoliberalism, and the neglect of the heterodox left—the VoC paradigm serves to encourage these trends. However, on two out of the six variables he identifies, the embrace of the VoC paradigm is positive. Insofar as the VoC research program enjoys wide acceptance and thus has good academic currency, the use of its comparative apparatus is a fruitful avenue for publication: what Kaufman calls "the rise of science building." Moreover, the VoC's narrow focus on the firm and its coordination problems serves to legitimate IR's traditional narrow focus on labour management relations and the pride of place HRM now enjoys in the remaining IR departments. However, from this researcher's point of view, the embrace of the VoC paradigm by IR is a net negative normative move.

Notes

1 For a partial survey of the range of debate that weekend see David Coates (2015).

2 In Iversen, Pontusson and Soskice (2000) Torben Iversen telegraphs this as the new reality confronting Swedish social democrats: "If the principle of economic efficiency is going to continue to be a cornerstone in the social democracy strategy, therefore, it has to be recognized that decentralization and monetarist macroeconomic policies in the future must be part of the institutional foundation of social democracy, despite their antithetical relationship to traditional socialist ideals" (227-228).

3 See Rowthorn and Kozul-Wright (1998) for a patient early survey and empirical testing of the economic convergence literature.

4 The resort to marginal calculus will not suffice as an explanation. The Williamsonian endeavor does not hinge on the existence of marginal calculus for it accepts explicitly marginal calculus and marginal analysis. Indeed, this is one of the major features which qualify it as a neoclassical form of institutionalism. The central premise of the theory of the firm, from Coase through to Williamson (as reviewed above), is that markets are replete with transaction costs and it is these costs which explain the existence of the firm.

5 New classical and new Keynesian economics share a common theoretical and methodological core which I have here called neoclassical economics. The main division between the two is that new Keynesian models allow for imperfect information and competition which provide for short run explanations of why markets may rest out of equilibrium.

6 It should be stressed that I am not taking issue with the Varieties characterization of the time frame in which firms tend to make their calculations. More short term horizons in LMEs and

longer term horizons in CMEs may exist; although this too requires substantiation. Rather, the issue is whether or not the differences can be attributed to the absence or presence of marginal analysis and decision making of actors and the structure of the markets in which they act. A case can be made, and often is by heterodox economists, that the assumption of perfect competition and marginal pricing does not characterize any capitalist economy and thus the new classical strain of neoclassical theory ought to be jettisoned in its entirety.

7 See the concluding chapter: "Industrial relations: Retrospect and prospect." The six explanatory variables Kaufman identifies are: 1- the narrowing of IR to labour-management relations; 2- the rise of HRM; 3- the rise of neoclassical economics and neoliberalism; 4- neglect of the heterodox left; 5- the rise of science building in the university; 6- the ideological commitment to pluralism and unionism.

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SUMMARY

Varieties of Capitalism: A Critique

The Varieties of Capitalism (VoC) has become the dominant approach in comparative political economy and enjoys wide application and attention in disciplines outside of political science and sociology. Indeed the VoC approach has enjoyed much attention in comparative industrial/employment relations (IR). This article undertakes a critical evaluation of the importation of the VoC paradigm into comparative IR. Inter alia, it is argued that the VoC approach, as it is presently configured, may have little to teach IR scholars because its basic theoretical concepts and methodological priors militate against accounting for change.

This article begins with a summary of the routine problems researchers in comparative political economy and comparative IR have encountered when attempting to account for change within the constraints of the VoC paradigm. Here the focus is on the limitations imposed when privileging the national scale and the problems engendered by a heavy reliance on comparative statics methodology infused with the concepts of equilibrium and exogenous shocks. The article then goes beyond these routinely recognized limitations and argues that the importation of terminology from neoclassical economic theory, of which the original VoC statement makes foundational reference, further serves to constrain and add confusion to the comparative enterprise; namely, comparative advantage, Oliver Williamson's neoclassical theory of the firm, the use of the distinction made between (im)perfect market competition in neoclassical economics and the fuzzy distinction made between firms, markets and networks.

In the concluding section we argue that the VoC's narrow focus on the firm and its coordination problems serve to legitimate IRs traditional narrow focus on labour management relations and the pride of place that HRM now enjoys in the remaining IR departments. Ultimately, however, the embrace of the VoC paradigm by comparative IR is a net negative normative move.

KEYWORDS: Comparative political economy; comparative industrial relations; varieties of capitalism; theory of the firm; industrial relations theory.

RÉSUMÉ

Variétés du capitalisme : une analyse critique

L'analyse des « variétés du capitalisme » (VdC) est devenue l'approche dominante en analyse politique comparée et bénéficie d'un degré élevé d'attention et d'application dans des disciplines extérieures à la science politique et la sociologie. En effet, cette approche a connu un succès notoire dans le domaine des relations industrielles et des relations d'emploi comparées. Cet article propose une évaluation critique de l'importance du paradigme VdC dans ce secteur. Entre autres, il y est soutenu que l'approche VdC, telle que présentement articulée, a peu à apporter aux spécialistes de notre domaine parce que ses concepts théoriques fondamentaux et ses postulats méthodologiques ne permettent pas la prise en compte du changement.

L'article débute par un résumé des problèmes courants rencontrés par les chercheurs en économie politique et en relations industrielles comparées lorsqu'ils cherchent à rendre compte du changement à l'intérieur des contraintes posées par le paradigme VdC. Ici, l'accent est mis sur les limites imposées lorsque le niveau national est privilégié ainsi que les problèmes engendrés lors d'un recours important à une méthodologie statique comparée, elle-même imprégnée des concepts d'équilibre et de chocs exogènes. Puis, l'article va au-delà de ces limitations courantes reconnues et soutient que l'importation d'une terminologie en provenance de la théorie économique néoclassique — à partir de laquelle l'énoncé initial du VdC établit sa référence fondatrice — a un effet réducteur et ajoutent encore plus de confusion à la démarche d'analyse comparée, notamment à cause de l'usage de la notion d'avantages comparées, de la théorie néoclassique de la firme d'Oliver Williamson, du recours à la distinction entre marché parfait et imparfait en économie néoclassique ainsi qu'à cause de la distinction floue entretenue entre firmes, marchés et réseaux.

En conclusion, nous soutenons que l'approche VdC, de par son accent étroit mis sur la firme et ses problèmes de coordination, sert à légitimer l'idée que les relations industrielles traditionnelles mettent l'accent sur les relations de travail (entre employeurs et travailleurs) ainsi qu'à cautionner la place de choix dont jouit maintenant la gestion des ressources humaines (GRH) dans les départements de relations industrielles qui existent encore sous cette appellation. Ultimement, l'engouement pour le paradigme VdC en relations industrielles comparées constituerait un déplacement normatif nettement négatif.

MOTS-CLÉS : analyse politique comparée, relations industrielles comparées, variétés de capitalisme, théorie des relations industrielles.

RESUMEN

Variedades del capitalismo: una crítica

Las variedades del capitalismo (VdC) se ha vuelto el enfoque dominante en la economía política comparativa y cuenta con amplia aplicación y atención en las disciplinas fuera de la ciencia política y la sociología. Por cierto, el enfoque VdC ha beneficiado de mucha atención en el campo del estudio comparativo de las relaciones industriales y del empleo. Este artículo asume una evaluación crítica de la importación del paradigma de VdC en las relaciones industriales comparativas. Entre otros, se argumenta que el enfoque de VdC, tal que configurado actualmente, puede tener poco a enseñar a los académicos de las relaciones industriales porque sus conceptos teóricos básicos y antecedentes metodológicas militan contra los argumentos que explican el cambio.

Este artículo comienza con un resumen de los problemas recurrentes que los investigadores en economía política comparativa y en relaciones industriales comparativas han encontrado cuando intentan explicar el cambio dentro de las restricciones del paradigma de VdC. La crítica se centra en las limitaciones impuestas al privilegiar la escala nacional y los problemas engendrados por una confianza extrema en una metodología comparativa estática basada en los conceptos de equilibrio y choques exógenos. Este artículo va más allá de estas limitaciones frecuentemente reconocidas y critica la importación de terminología de la teoría de economía clásica que constituye la referencia fundamental del paradigma de VdC. Dichos conceptos importados, tales como las ventajas comparativas, la teoría neoclásica de la empresa de Oliver Williamson, el uso de la distinción establecida entre com-

petencia (im)perfecta de mercado en la economía neoclásica y la distinción nebulosa entre las compañías, mercados y redes, sirven a restringir y añadir la confusión a los estudios comparativos en relaciones industriales.

En la conclusión, argumentamos que la visión limitada de las VdC con respecto a la empresa y sus problemas de coordinación contribuye a legitimar la focalización reductora de las relaciones industriales tradicionales en las relaciones de gestión del trabajo y el lugar central que la gestión de recursos humanos ocupa en los departamentos de relaciones industriales restantes. Por último, la adopción del paradigma de VdC en la comparación de las relaciones industriales es un cambio normativo manifiestamente negativo.

PALABRAS CLAVES: Economía política comparativa; relaciones industriales comparativas; variaciones del capitalismo; teoría de la firma; teoría de las relaciones industriales.