

Peter A. Hall – David Soskice (eds.):
Varieties of Capitalism: The Institutional Foundations of Comparative Advantage
 Oxford 2001: Oxford University Press,
 540 pp.

In recent years comparative political economy has come to focus on the analysis of the effects of the regulated economy on (re-)configuring variants of capitalism. In *Varieties of Capitalism*, Peter Hall and David Soskice put forward what is probably one of the most influential and trenchant analyses of contemporary capitalism, in which they illuminate the role of political and economic institutions in coordinating different patterns of economic growth. The *varieties of capitalism* framework, which “brings firms back into the center of the analysis of comparative capitalism” (p. 4), is founded on the proposition that firms interact with other agents through a mix of market and non-market mechanisms. Thus, the fundamental premise of Hall and Soskice’s approach is that firms in a particular political economy obtain a *comparative institutional advantage* based on their strategies for solving coordination problems within five distinct spheres of interaction: (1) industrial relations, which entails wage bargaining and concrete workplace conditions; (2) vocational training and education, which involves the resources that firms and workers devote to the development of specific skills; (3) corporate governance, which applies to the availability of finance between firms and investors; (4) inter-firm relationships, which consist of the coordination between the firm, suppliers, clients, and competitors; and finally (5) employee relationships, which encompass the institutional sociology of the workplace (p. 7).

In the book’s Introduction, Hall and Soskice provide basic operational distinctions between two ‘ideal-types’ of political economies: *liberal market economies* (LMEs) and *coordinated market economies* (CMEs). In LMEs firms rely primarily on market forces, not only to solve problems, but also to coor-

dinate relations between the economic actors and institutions of a country. This variant is mainly typical for the Anglo-Saxon economies, such as Australia, New Zealand, the UK and USA, where there is little coordination of market relations and limited intervention in the economy.

Conversely, in CMEs firms are subordinated to regulations through non-market mechanisms (collective bargaining and legislation, governmental regulations of market flexibility, etc.). This variant is predominant in continental Europe and the Scandinavian countries. Germany, Sweden, and Italy are used in the book as classical examples of extensive coordination of the economy. In absolute terms, however, it is important to note that both of these – almost dichotomous – types of political economies are very much hypothetical, and that all real economies typically feature both market and non-market mechanisms to a much greater extent than Hall and Soskice are willing to consider.

Hall and Soskice strengthen their main argument by incorporating two more elements in their analysis: the role of a country’s history (i.e. common knowledge) and culture (i.e. common culture). They postulate that “common knowledge and culture” (p. 13) have had years to develop, solidify, and consequently define practical norms of behaviour and the formal and informal rules of institutional and corporate governance. They claim that these rules tend to be firmly interwoven in and often complementary to the techno-economic development trajectories of both types of economies. Without a doubt, the inclusion of these two, often ignored, ‘mega-variables’ increases the quality of the analyses by unfolding the complexity of contemporary capitalism.

The book is divided into three parts. Part 1 consists of five chapters that elaborate the general themes or distinct spheres of interaction discussed by Hall and Soskice. In Chapter 2, Kathleen Thelen examines the implications of different labour policies on industrial relations in several CME and LME

countries. In Chapter 3, Robert Franzese analyses how multiple institutional interactions affect unemployment and inflation. In Chapter 4, Margarita Estevez-Abe, Torben Iversen, and David Soskice present the argument in favour of social protection (as a form of governmental policy) that has the power to "rescue the market from itself by preventing market failures" (p. 145). Their main emphasis is on the development of an effective welfare state that not only provides workers with strong incentives to develop transferable skills, but also guarantees fundamental forms of social equality. In Chapter 5, Isabela Mares, explores the conditions under which the 'when', 'why', and 'how' of social policy actually matter to employers. Using realism and institutionalism as the two dominant theories, Orfeo Fioretos concludes Part 1 with an analysis and comparison of different sources of multilateral preferences in the European community.

Part 2 is devoted to specific case studies in public policy. In Chapter 7, Stewart Wood, sets the tone by encouraging readers to look beyond the constitutional and political contexts of CMEs and LMEs and to consider the importance of public policy in the organisation of economic activity. In particular, he focuses on labour market policy in Britain (LME) and Germany (CME) to demonstrate how government policy options can be, and often are, restrained by the different organisational capacities of employers. In Chapter 8, Pepper Culpepper discusses the relevance of the varieties of capitalism framework for facilitating the emergence of decentralised cooperation in apprenticeship training in Germany and France. Bob Hancke, in Chapter 9, examines the shift in the structure of corporate governance in French industry. According to Hancke, the restructuring has been characterised by the disappearance of the old model and the emergence of a new model in which state intervention in the economy is significantly reduced.

Part 3 provides specific case studies on corporate policy. Specifically, in Chapter 10,

Sigurt Vitols compares corporate governance in Germany and the UK. The notion of corporate governance is examined in Chapter 11 by Mark Lehrer, whose study looks at macro-institutional differences in the strategic management of several European airlines. In Chapter 12, Steven Casper analyses how the character of contract law in Germany and the USA influences a firm's strategies. The book concludes with Gunther Teubner's discussion of European tendencies towards unification through law in Chapter 13, and, in Chapter 14, Jay Tate's summary of national approaches to standardisation in industry; LMEs traditionally favour global standards arising from a variety of competing sources, while CMEs favour international standards that are centrally and formally coordinated.

What is the main message from Hall and Soskice's book for those who wish to study further the emerging variants of capitalist systems in Central and Eastern Europe (CEE)? First, the two 'ideal types' of national political economies, 'liberal market economies' and 'coordinated market economies' display quite distinct, yet equally strong potential for *building comparative economic advantages*, or in other words, equally strong potential for *building overall competitiveness* in CEE countries.

Second, both 'ideal types' of capitalism have the *market in common as the underlying coordinating institution*. There are still systems of political economies that political theoreticians label 'totalitarian regimes' (Janos Kornai describes them as 'bureaucratically coordinated' systems). What all these systems have in common is that they *displace and dismiss the market as the underlying co-ordinating principle*. As we know, perhaps far too well, many of these economies collapsed as a result of having ignored this principle (among others), and the re-emerging nations are now engaged in the painful transformation to democracy and a market co-ordinated system.

Third, since none of the countries that experienced this collapse had a clear vision

of which 'ideal type' of capitalism they intended to be transformed into, the early stages of building capitalism on the ruins of socialism were full of euphoria, symbols, slogans, and almost unlimited trust in the new political elites, but there were no clear blueprints for consistent reform of the system as a whole. The mission of the former elites was defined very broadly to guide the nations through 'the valley of tears', or from socialism to capitalism, and towards achieving 'prosperity'. Unfortunately, in most cases the transition to 'prosperity' has remained an empty slogan or wishful thinking, and these countries have shown only slow and modest improvement, if not a *decline, in their competitiveness*, a.k.a. of their comparative economic advantages.

Fourth, some analyses, drawing on data from two major competitiveness yearbooks (MDI and World Economic Forum), show that the decline in economic advantage is caused primarily by *low competitiveness* in human resources, an almost non-existent infrastructure of innovation systems, poor flexibility of the labour force, and by certain values and norms. This kind of stagnation has also been attributed to the fact that in most of these countries there is still a *very large segment of the population with only vocational training* (apprentice schools) and an *extremely low number of students in general tracks* of secondary education.

The book quite convincingly demonstrates that there are two distinct systems of education and training, corresponding to each of the 'ideal types' of capitalism. The first type of education system builds on general education, which emphasises *the role of tertiary education for socio-economic mobility, life-success and job-security*. These systems – typical for LMEs – tend to disadvantage those who are not academically inclined; their motivations and incentives are undermined because their educational investments have low returns (much lower than returns to those who follow the 'vocational' or 'apprentice' track in the other system). Therefore, accord-

ing to Hall and Soskice, this type of education system tends to produce not only a highly flexible labour force, but also quite a few 'losers', or people who fail in the competition for post-secondary education.

The second type of education system builds on *strong vocational training*. These systems – typical for CMEs – tend to provide a relatively stable economic future for students who are not academically inclined or strong. On the other hand, it also produces a significantly lower number of people in the workforce who have tertiary education (in comparison with the most economically advantaged countries), since obtaining a tertiary degree is not an essential and desired component of the system. However, the answer to these problems lies somewhere in between the two 'ideal types'. The Finnish model puts strong emphasis on general education up to 18 years of age, with the option of attending 'vocational colleges' after general education is completed. This model, discussed in Chapter 4, seems to be fairly successful and may be very compatible with both systems of political economy.

Fifth, the issue of building a comparative economic advantage is also strongly correlated with another aspect of public policy, and that is the research and development sector (R & D). In CEE countries particularly, this sector has been more or less paralysed by the underdeveloped forms of cooperation between public (university) institutions and private enterprises (industry, firms).

The above-mentioned comments refer to extremely urgent issues for some of the countries of Eastern and Central Europe because, as the book so convincingly shows, the particular type of education system is an inseparable part of the overall system of the political economy and as such cannot be separated from these discussions. As a consequence, policy makers, politicians, and scholars in these countries should re-open the debate relating to the 'ideal type' of capitalism that their system of political economy is to be transformed into.