Draft. Comments welcome.

Comparing Capitalisms:

Liberal, Coordinated, Network, and Hierarchical Varieties

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Abstract. An initial deductive distinction among principles of allocation and commitment helps specify the underlying logic of four ideal-typical varieties of capitalism: liberal market economies (LMEs), coordinated market economies (CMEs), network market economies (NMEs), and hierarchical market economies (HMEs). In the abstract, different logics inform relations among economic agents in each variety -- markets, negotiation, trust, and command, respectively -- and lead to marked differences in these four varieties in labor and employee relations, corporate governance, business organization, and skill regimes. Moreover, the dynamic interactions, or complementarities, among these spheres of economic organization differ across the four varieties, as do the causal processes that promote coherence and isomorphism within each variety. Although the connections are looser, each variety is also associated with different forms of overall political organization. This expanded typology facilitates broader comparative analyses of varieties of capitalism beyond Europe to Asia, Latin America, and other developing countries.

I. Introduction: Expanding the Typology[1]

Over the past several decades states retreated and markets advanced in most developing economies, especially Latin America, yet the results have often surprised advocates of market reform. On the labor side, freer markets did not favor the abundant factor of unskilled labor nor did high skilled employment in services expand as rapidly as expected. On the side of corporate governance, economic liberalization did not generate a convergence around US-style specialized managerial capitalism, but rather favored large diversified business groups and multinational corporations. In fact, one of the ironies of economic liberalization is that it often generated more corporate hierarchies than competitive markets. Just as the pressures of globalization refracted differently through diverse institutional configurations in developed countries, there are strong reasons to suspect that the surprises of economic liberalization in developing countries are related to their distinctive institutional foundations of capitalism.

Analyzing those institutional foundations requires a prior conceptual understanding of varieties of capitalism that extends to developing countries as well. For a number of years now, scholars of comparative political economy have been asking how many varieties of capitalism exist in contemporary societies. To date the most common answers -- based almost exclusively on comparisons among developed countries -- are one, two, three, four, five, or many. The answer offered here is four, based primarily on ideal types constructed around four basic mechanisms of allocation that are compatible with various forms of organizing capitalism: markets, negotiation, networks, and hierarchy.

For those seeking a more inclusive and exhaustive taxonomy of capitalisms, the lament over Hall and Soskice's original bivariate formulation was that it was too inductive, empirically complex, and geographically narrow (OECD-centric). However, even their original formulation contained hints for possible extensions. For one, their category of CMEs lumped together two different sub-types, Japanese and European CMEs, that operated on distinctive principles: group-

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[1] I am grateful to the Tinker Foundation for financial support and to Ernesto Calvo, Margaret Pearson, Andrew Schrank, and Kathleen Thelen for comments on earlier versions.

based versus industry-based coordination, respectively (2001, 34). Moreover, they speculated that some countries of southern Europe might be hybrid "Mediterranean" varieties, with more coordination on the capital side and more markets for labor. However, these possible subtypes remained undeveloped.

Without going into a full review of other attempts to differentiate types of capitalist systems, it is still worth noting that most recent offerings continue to focus on inductive clusterings rather than deductive principles and usually exclude non-OECD economies.[2] For example, Bruno Amable (2003) also provides finer distinctions among European capitalisms and attempts some broader geographic comparisons. Amable's distinction among five types of capitalism -- market-based, social-democratic, Continental European, Mediterranean, Asian -- steps further south and ventures a bit out of the OECD world. But, his approach is even more inductive and more multifaceted as he folds in social welfare and educational systems as well as other features of the productive system.

My more deductive point of departure is that capitalist systems -- defined by the predominance of mostly free markets and private property -- accommodate a limited number of alternative mechanisms for allocating resources, especially the gains from investment, production, and exchange. These mechanisms are markets, negotiation, trust, and hierarchy, and correspond in systemic terms to, respectively, liberal market economies (LMEs), coordinated market economies (CMEs), network market economies (NMEs), and hierarchical market economies (HMEs).

My typology takes a firm's eye view on comparative political economy and focuses primarily on the internal organization of large private firms and their relations with their political

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[2] Coates (2000, 9–10) distinguishes three "ideal types of capitalist organization:" market-led, state-led, and negotiated or consensual. Representative cases of each include, respectively, the United States and United Kingdom, Japan and South Korea, and Germany and Sweden. Schmidt (2002, 112–8) uses a similar three way typology of market capitalism, managed capitalism, and state capitalism with France and Italy in the last category. Kitschelt et al. (1999) distinguish four main types: uncoordinated liberal market capitalism (same countries as LMEs), national coordinated market economies (labor corporatist) in Scandinavia, sector-coordinated market economies (Rhine capitalism) in much of Continental Europe, and "group-coordinated Pacific Basin market economies" in Japan and Korea.

and economic environments. Other typologies that focus instead on state activities like social spending or development promotion are useful for other purposes, but are less helpful in identifying distinctive features of large firms and the kinds of development, jobs, and competitive advantages these firms are likely to generate. In some instances, to which I return later, states and politics overwhelm the private sector, making a firm's eye perspective less relevant. Such cases, though, have become rarer in recent decades.

This four-fold deductive typology offers several advantages over previous formulations. First, it provides additional conceptual tools for analyzing capitalism outside the developed world. To date, most discussion of capitalism in poor countries views it as transitory, dependent, pre-modern, developing, emerging, or some other gerund, with the implicit presumption that the trajectory is toward some already recognizable form of capitalism in rich countries. The conceptual addition of the new hierarchical variety (HME) allows us to conceive of a distinct, rather than derivative, kind of productive organization that has its own reinforcing dynamics and institutional advantages and disadvantages. Put differently, a poorer, or middle income, region like Latin America, may still lag as far behind developed countries in terms of GDP per capita as it did decades ago, but on many social and economic indicators contemporary middle income countries are as 'modern' as developed countries were by the middle of the 20th century. Thus, there are good reasons to think that capitalism in many middle income countries may have settled into institutional foundations of its own, and therefore requires analysis on its own terms rather than as some form of capitalism manqué or in formation. In short, it may be that capitalism in many developing countries is what it is, rather than on its way to becoming something else.

Second, a more deductive typology offers an option for theoretical closure on the question of how many varieties. This closure is conceptual and does not imply that all countries are, or are on the way to becoming, one of the four varieties. The point is that the number of alternative principles for allocating resources in a capitalist economy is limited. Third, the proposed typology helps distinguish different forms of capitalism within particular countries.[3] Even if comparison of national models is the primary purpose, it need not require us to ignore intra-country variation. So, for example, the expanding service sectors in most CMEs do not look very coordinated and seem to conform more to a market logic. Although the analysis here is based primarily on cross national variation, for some purposes, it may be more useful to think of all national economies as evolving mixtures of various sorts (see Crouch 2005). Assessing patterns in these mixtures though requires prior delineation of clear conceptual ideal types, rather than the usually blurred categories derived from empirical clusters of national level indicators.

Section II explores in greater detail the main differences across the four varieties in the basic allocative and commitment mechanisms, corporate governance, labor relations, and skills. This section also assesses the fit of various countries to these ideal types. Section III analyzes complementarities and other interactions that knit varieties together, focusing primarily on the less known variety, HMEs. Section IV examines the drivers of institutional isomorphism, replication, and coherence in different varieties, and takes up the issue of the political underpinnings that sustain each variety. The conclusion raises some theoretical and policy implications.

II. Allocative Mechanisms: Markets, Negotiation, Trust, and Hierarchy

Markets and coordination, the mechanisms in the original CME/LME dichotomy, do not exhaust all the primary logics or principles of allocation in capitalist economies. In fact, Hall and Soskice note two quite different mechanisms in for coordination in CMEs, negotiation in Europe and networks in Asia (hereafter NMEs). These three mechanisms seem to parallel Hirschman's (1970) trichotomy of responses to decline: exit (LMEs), voice (CMEs in Europe), and loyalty (NMEs in Asia). For Hirschman, loyalty was less a third principle and more a factor mitigating voice and exit. However, loyalty requires trust which figures centrally in most analyses of Japanese networks, life time employment, and group coordination. Lastly, in terms of basic

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[3] There is a long research tradition that compares within country variation by sector or region. For example, see Piore and Sabel 1984; Hollingsworth and Boyer 1997.

principles, hierarchy is a fourth crucial mechanism for non-market allocation. In post-Coasian economics, hierarchy is a feature of all modern firms and a universal response to higher transaction costs (Williamson and Winter 1993). However, transaction costs and hierarchy vary considerably across national institutional contexts, and hierarchy should also be considered a variable option adopted by economic agents instead of market, network, or negotiated alternatives.

The rest of this section analyzes the differences among the four varieties across basic allocative principles and mechanisms, corporate governance, labor relations, and empirical cases. Table 1 starts with abstract distinctions underlying each variety. Subsequent tables incorporate more empirical regularities associated with real world manifestations, but, even as the distinctions turn to empirical issues like union density or ownership structure, the elements remain consistent with the first principles or logics in Table 1.

Table 1. Basic Relations in Four Ideal Types of Capitalism

	Liberal (LME)	Coordinated (CME)	Network (NME)	Hierarchical (HME)
Allocative principle	markets	negotiation	trust	hierarchy
Characteristic interaction among stakeholders	spot exchange	institutionalized meeting	reiterated exchange	order or directive
Length of relationships	short	long	long	variable

The issue of skills provides a useful illustration of the core principles of allocation. When workers and their employers invest in training, how are the gains from that investment divided? Following the possible mechanisms in Table 1, both parties can let the market decide the value of the new skills, and employees can sell them to the highest bidder. Or, workers and employers can negotiate a plan for sharing the gains from skills in the context of long term employment relationships. Or, workers can invest in skills and trust that they will be compensated in some way in the future, such as seniority based pay. Or, finally, employers can decide unilaterally who gets trained and how the gains are distributed. Of course the power asymmetries between employees and employers are enormous in all types of capitalism, but shared expectations vary on how that power is wielded. Workers may expect employers, variously, to play the market, return regularly for negotiations, keep them on for life time employment, or just tell them what to do next.

The typical interactions in Table 1, considered in more detail below, characterize relations among different sets of stakeholders. So, for example, managers in LMEs would expect most relations with shareholders, creditors, suppliers, competing firms, and employees to be short term and market based. Managers in NMEs, in contrast, would expect these relations to be longer term, and each iterated exchange helps build trust for the next round. Managers in CMEs can expect many more meetings with formal, bargained commitments. In HMEs, relations among owners and managers tend to be hierarchical and longer term, while relations with other firms and with workers are shorter term and based on some combination of markets and coercion.

For a comprehensive and coherent set of ideal types, it is important to separate out the distinct network variety (NME). The conceptualization of NMEs draws on work on economic sociology, social capital, and sociological analyses of Asian capitalism (see Lincoln and Gerlach 2004; Feenstra and Hamilton 2006, especially 44–45; Granovetter 2005). The common thread in this work is the conviction that informal norms and non-market relations of trust and reciprocity are at least as important as strictly economic and formal relations in determining the performance of firms, regions, and countries. These informal relations are based on long term, non-contractual, face-to-face interactions. As such, it is less likely that networks reach into all the corners of the economy, the way markets or hierarchies can. So, for instance, in the Japanese economy, the keiretsu guided only a small number of the largest business groups, and lifetime employment covered the labor elite in large firms. In other cases, considered below, network capitalism may be confined to particular sectors or regions.

Hierarchy and the concept of a hierarchical market economy have not been considered in previous analyses of comparative capitalism.[4] Hierarchy is of course the day to day result of firm decisions to 'make rather than buy.' However, hierarchy is also present in a much broader range of economic relations and realms including stock markets, corporate boards, employee relations, and decisions on investing in skills. Empirically, as discussed below, hierarchy is more common in developing countries, yet conceptually it is a distinctive mechanism of allocation that merits inclusion with the other three.

Conceptually, the four principles are mutually exclusive in the sense that they cannot be combined in equal measure. An allocation based on a hierarchical order, for example, cannot simultaneously be the result of negotiation. Of course, in everyday relations, elements of all four may come into play, and firms (all organizations in fact) have at least some relations based on each of the four mechanisms. And, over time, particular economic relationships may evolve from, say, hierarchy, to market, to network. However, for most major commitments of time and resources, the economic agents presumably have few doubts over which is the primary motivating principle. The four core principles should also be collectively exhaustive in that other possible mechanisms of distribution such as theft, lotteries, or communalism are not compatible with capitalist systems based on free markets and private property. However, as multidimensional ideal types, these four varieties are not meant to be empirically exhaustive and many countries may not fit any of the four types (as such my typology is similar to Schmitter's (1974) classic typology on interest representation).

How are these four abstract principles manifest in various spheres and relations of capitalist production? Tables 2, 3, and 4 turn to more specific distinctions and start to draw in more empirical examples. Yet, as the discussion of each sphere and table elaborates, the major distinctions are logically coherent with the first principles in Table 1. On the dimension of corporate governance, the first distinction is between dispersed ownership in LMEs like the

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[4] Hierarchy comes up ocassionally in recent debates (Hall, P. and Soskice, D. 2001, 9; Crouch 2005, 33; Whitley 1999), but not as the basis for a distinct variety of capitalism.

United States and Great Britain and blockholding (concentrated ownership) in the other three varieties (Table 2).[5] Concentrated ownership and patient investment facilitate the longer term relations in negotiated and coordinated capitalisms as in Germany. While ownership is concentrated in the blockholding varieties, the type of control varies somewhat. In particular, large firms in NMEs like Japan tend to have more cross-shareholding among groups that crowds out dispersed shareholding and makes it easier for the largest blockholders to maintain effective control with smaller stakes and fend off outside takeovers. In HMEs in many developing countries, ownership tends to be more concentrated, in part because of the relative underdevelopment of stock markets, and mostly held by families (which adds another element of hierarchy). As discussed later, patterns of stock ownership may be the area most subject to change and convergence in recent decades as the massive flow of international portfolio investment has dispersed ownership in many previously closely held corporations.

Table 2. Corporate Governance and Inter-firm Relations

	Liberal (LME)	Coordinated (CME)	Network (NME)	Hierarchical (HME)
stock ownership	dispersed	blockholding	blockholding & cross ownership	family blockholding
predominant type of large firms	specialized managerial corporations, MNCs	bank controlled firms, business groups	network business groups (keiretsu)	hierarchical business groups, MNCs
firm relations within sectors	competitive	sectoral associations	competitive	oligopolistic
firm relations across sectors	few	encompassing associations	informal networks	few
supplier relations	competitive bidding	long term, negotiated	long term, informal	vertical integration

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[5] There is a large comparative literature on shareholding, due in part to the availability of vast amounts of quantitative data. For example, see La Porta, López-de-Silanes, and Shleifer 1999; Roe 2003; Gourevitch and Shinn 2005.

Share ownership feeds into different types of corporate structure and authority in the large firms in each variety. Dispersed ownership in LMEs shifts decisional authority to managers, but also subjects them to short-term monitoring and performance pressures. Owners have greater control in the other non-LME varieties where investors tend to be more 'patient.' Although business groups are common in non-LME varieties, they tend to be different types, more informally connected in NMEs and more hierarchical in HMEs (see Schneider 2007b).

In addition, among the largest firms, MNCs are common in both LMEs and HMEs, but rarer in CMEs and especially NMEs. The debate on varieties of capitalism in developed countries pays little, if any, attention to MNCs, yet even there the contrasts are large: the proportion of sales accounted for by MNCs was 21 percent in the United States, 31 percent in the United Kingdom, 11 percent in Germany, and just two percent in Japan (Barba Navaretti and Venables 2004, 5).[6] The presence of MNCs in most developing countries is even larger, especially in higher technology manufacturing (such as autos and electronics), with the significant exceptions of Korea and Taiwan (Amsden 2001). MNCs are compatible with market and hierarchical varieties though not logically necessary.[7] MNCs though are logically inconsistent with coordination and networks, and in practice when MNCs expand in CMEs and NMEs they undermine inter-firm coordination through business associations and informal networks.

Comparisons across three dimensions of inter-firm relations -- within sectors, across sectors, and with suppliers -- reveal differences that are closely related to the guiding principles of

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[6] Soskice (1999, 118) devotes only a paragraph to MNCs, noting mostly that MNCs often seek out CMEs or LMEs to leverage their respective institutional advantages, as in German chemical companies with biotechnology investments in the United States. Other extensions to Hall and Soskice or contending perspectives on comparative capitalism also devote little attention to MNCs (Hancké, Rhodes, and Thatcher 2007; Huber 2002; Crouch 2005).

[7] MNC subsidiaries are subject to hierarchical control, which adds a non-market element to LMEs. However, LMEs are mostly large, open economies where MNCs are therefore subject to stronger market forces. In developing countries, MNCs often have greater market power or collective dominance of whole sectors, so the hierarchical element is more evident and consequential (see Shapiro 2003).

each variety.[8] In LMEs, relations are competitive within sectors, largely absent across sectors (encompassing associations are weaker or non-existent), and competitive among suppliers. Business associations and interfirm networks also do little coordinating in hierarchical capitalism, and the presence of MNCs increases heterogeneity among large firms and further impedes networking and coordination. So, relations among firms tend to be more atomized and competitive. The main differences with LMEs derive from the weaker legal environments in most HMEs, so firms tend toward more market power (and oligopoly in some sectors) and rely more on vertical integration in supplier relations.

In CMEs, employer and sectoral associations are stronger and more encompassing, and they perform crucial coordinating functions such as bargaining collectively, managing vocational training programs, and negotiating sectoral standards. Relations with suppliers are based on long term, negotiated relations that often involve joint efforts at upgrading. In NMEs, crucial coordination also takes place through informal networks of firms, best typified by the *keiretsu* in Japan. Such network based business groups are multisectoral and provide strong links across sectors, yet at the same time business groups compete with one another in individual sectors. In practice, formal associations in network economies may also be important and, often with government support, help to mediate coordination within sectors. Relations with suppliers are often long term with formal negotiation, but there are additional network, and informal relations (as in the practice of shifting employees from buyer to supplier firms).

On the labor side, there is also greater resemblance between LMEs and HMEs, and between CMEs and NMEs (Table 3).[9] In hierarchical and market varieties, employment relations are short term and unmediated by unions which are generally weak or absent. Workers therefore

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[8] Supplier relations are also dependent on sectoral and product characteristics. Where transaction costs are high (and contracts therefore difficult to write), buyers will shy away from market relations and favor longer term networks, ongoing negotiations, or outright hierarchy. However, in the grayer, more uncertain range of make-or-buy decisions, an institutional perspective would expect more cross national variation, with suppliers relations tending to be closer and longer term in NMEs and CMEs, and vertical integration more widespread in HMEs.

[9] This discussion of labor draws on Schneider and Karcher (2007), which also provides more empirical data on country clusters.

have few incentives to invest in sector or firm specific skills, and invest, if they do invest, in more general skills. In CMEs and NMEs, in contrast, employment relations are longer term, and employees therefore have stronger incentives to invest in sector specific skills. The difference between CMEs and NMEs derives largely from expectations of longer term employment (as in Japan) where employees trust that they will be able to amortize investment in firm specific skills. In CMEs, training is organized on a sectoral basis and institutions like generous unemployment benefits allow laid off workers to wait for jobs that match their skills and therefore allow them to amortize sector specific training (Estevez-Abe, Iversen, and Soskice 2001; Iversen and Soskice 2001).

Table 3. Labor Relations and Skills

	Liberal (LME)	Coordinated (CME)	Network (NME)	Hierarchical (HME)
Employment relations	short term, market	long term, negotiated	life time employment	short term, market
Industrial relations	few unions	strong, encompassing unions	company unions	few unions
Labor-management committees	no	yes	yes	no
Skills	general	sector specific	firm specific	low

In principle, unions are dispensable in market and hierarchical varieties, and in practice large majorities of workers in purer cases of each do not belong to unions. Empirically, nearly all countries have some unions, though in HMEs and LMEs they are often concentrated in the public sector (especially education). Beyond, or alongside, unions, there is a further issue of additional forums for consultation and negotiation over work organization and other shopfloor issues. On this dimension, both theory and practice are more black and white: LMEs and HMEs have none while CMEs and NMEs have a range of different forms of ongoing consultation between management and labor, including statutory bodies like works councils (codetermination), representation on company boards, and shopfloor work teams.

Overall, each variety has distinctive strengths and weaknesses (Table 4). For Hall and Soskice (2001), the adaptability of LMEs combined with high level skills in cutting edge technology and service sectors promotes radical innovation in new products and businesses. CMEs and NMEs, in contrast, manage through longer term relationships to innovate incrementally, especially in manufacturing, and to make constant improvements in quality and productivity in more established lines of activity. HMEs lack both of these kinds of innovative capacities due to lower skills overall and short-term hierarchical relations that impede collaborative shop floor relations needed to promote incremental production innovation. Firms in HMEs develop stronger competitive advantages in commodity production, often based on natural resources, in sectors like agro-industry (pulp and paper, vegetable oils, meat packing, and likely ethanol), minerals and metals (steel, aluminum, processed copper, cement), and more industrial commodities (textiles, electronic components, auto parts) where the design and marketing are located in developed countries and production is subcontracted out to firms in developing countries in global production networks (Gereffi, Humphrey, and Sturgeon 2005).

Table 4. Comparative Institutional Advantage and Empirical Cases

	Liberal (LME)	Coordinated (CME)	Network (NME)	Hierarchical (HME)
Comparative institutional advantages	radical innovation, services	incremental innovation, manufacturing	incremental innovation, manufacturing	commodities, global production networks
National cases	United States, Great Britain, Australia, Estonia	Germany, Scandinavia, Slovenia, (Korea?)	Japan, Taiwan (China?)	Latin America, South East Asia, Turkey, South Africa

Table 4 categorizes some major empirical cases, based primarily on the leading sectors and big firms in each country. The LME, CME, and NME classifications follow the conventional wisdom on OECD countries that most closely approximate each ideal type, and add in some emerging cases of each. Many of the larger, middle income developing countries approximate the HME variety. The economies of large countries of Latin America and Southeast Asia, as well as countries like Turkey and South Africa, have many hierarchical business groups and MNCs, high labor turnover and lower average skills, and generally weak labor unions that lack capacity to negotiate effectively. Chile, for example, was a leader among developing countries in liberalizing its economy and is also a leader, not coincidentally, in the concentration of corporate control. By one recent measure, the sales of the 63 largest firms in 2006 equaled 87 percent of GDP, meaning that a small number of hierarchies controlled a large proportion of economic activity.[10] The next section provides more empirical indicators from Latin America (see also Schneider 2007a).

Among the emerging capitalist economies of East Europe and the former Soviet Union, some governments explicitly adopted programs of transition to a particular variety, other countries gravitated towards particular models, and others are still in transition or at least not yet recognizable as one of the four varieties. The Baltic countries (Lithuania, Latvia, and Estonia) adopted the most extreme market reforms, pushing them in an LME direction, while Slovenia stands out for the sustained reliance on CME kinds of institutions such as strong business associations, labor unions, and tripartite negotiations (Bohle and Greskovits 2007).[11] Russia and some of the other former Soviet Republics seemed to be moving towards hierarchical capitalism,

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[10] This figure exaggerates the proportion of GDP controlled by these 63 firms because it includes foreign sales. At the same time it underestimates the degree of concentration because some of these 63 firms belong to an even smaller number of business groups, *América Economia*, 9 July 2007, p. 67.

[11] Feldman (2007) provides a detailed analysis of Estonia and Slovenia as prime examples of, respectively, new LMEs and CMEs. Poland and Hungary (and other countries of Central Eastern Europe) are dominated by MNCs and foreign banks so that the functioning of capitalism depends much more on the character of foreign investment and investors than on domestic institutions. King calls these cases of “liberal dependent post-communist capitalism” (2007).

but several cases have ended up better classified as state or patrimonial capitalism (discussed below).

Among the rising industrial economies of East Asia, Korea, Taiwan, and China seem to hover between CMEs and NMEs, and on some dimensions drift over to HMEs (though they are pretty clearly not LMEs). Taiwan, for example, has extensive business networks but also strong business associations that coordinate, CME-style, standards, R&D, and exports (Fields 1997). China, though still perhaps lacking sufficient private property and national markets to be classified as fully capitalist, has networked groups like keiretsu but also shorter term employment and MNCs characteristic of HMEs (Keister 2000).

Korea has longer term employment relations, but also very hierarchically structured business groups, the chaebol. Because of the apparent similarities between keiretsu and chaebol, Japan and Korea are often classified together as group-based CMEs (Kitschelt, Lange, et al. 1999; Soskice 1999). However, chaebol and keiretsu rely on quite different coordinating mechanisms: loose, informal networks in keiretsu, and rigid hierarchical control in chaebol.[12] To the extent that Korean business associations perform important coordinating functions among chaebol and that Korean unions are less company dominated than in Japan, then Korea starts to look more like a European-style CME. Moreover, in the late 1990s the Korean government mandated that all large firms create internal labor-management committees (Haagh 2004).

The ideal typical distinctions also help identify significant within case deviations and combinations.[13] In the United States, for example, networks are crucial to Silicon valley as well as smaller niche sectors like diamonds and fashion designing. Moreover, some privately held firms in the United States (some in commodities like Cargill) resemble hierarchical HME business

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[12] Chaebol tend to be more vertically integrated than Taiwanese groups. In addition, Taiwanese groups are smaller and rely more on network ties to buyers and suppliers (Feenstra and Hamilton 2006; Chang 2006).

[13] It is beyond the scope of this paper to consider the many hybrid or mixed varieties. For an excellent treatment of two countries, Spain and Italy, that are usually treated as hybrids, or “mixed market economies,” see Molina and Rhodes (2007).

groups. In case of the other three varieties, the growing service sector has many LME features: general skills, smaller firms without network or association ties, and shorter term employment. Lastly, some firms in HMEs (some of the best known cases are Embraer (aircraft, Brazil) and Techint (steel tubes, Argentina), have managed to create pockets of lasting investment in skills and well mediated employment relations and consequently look more like CME firms. For the most part these anomalies are exceptions that prove the rule, and their exceptionalism can often be traced to peculiar and determined efforts not to conform to the prevailing complementarities, as for example was the state's long term subsidization of skill development and long-term employment in Embraer.

Many other contending classifications for capitalist systems, especially in developing countries, revolve around characteristics of the state: rentier capitalism, petro-states, developmental states, crony capitalism, or just state capitalism. For the most part, these statist types belong under Weber's umbrella concept of political capitalism where profits depend more on politics than markets. In such cases of state dominance, the nature of the state is more important than the organization of private firms in determining the type of political economy.[14] The large literature on different kinds of political capitalism can be distilled into three general types: state capitalism, developmental states, and patrimonial capitalism. In instances of state capitalism, the public control of the economy, especially in the largest firms and sectors, exceeds the private sector, either by virtue of public property (as in China through the 1990s) or natural resource rents. In the latter case (rentier or petro- states), the state, by virtue of its control of overwhelming natural resource rents, dominates all economic activity and forecloses the emergence of large, independent private firms. Second, at an extreme level of intervention,

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[14] Outside these extreme cases, and contra authors like Schmidt (2002) and Coates (2000), I exclude statist or state-led varieties of capitalism, as well as business-government relations as a constituent component of my typology. In general, state intervention in the economy can vary significantly independently of the variety of capitalism. Although most CMEs in northern Europe have large welfare states, welfare spending among LMEs varies greatly. Similarly while state intervention through industrial policy and credit markets has been substantial in France and Japan, such intervention was also vast in pre-Thatcher Great Britain through public enterprises or in the United States technology policy during the Cold War (see Crouch 2005).

developmental states (perhaps in Taiwan and Korea in the 1960s) determine so much of economic activity that they can be considered cases of political capitalism. Third, political leaders may favor particular businesses in what is variously termed crony, clientelist, or patrimonial capitalism.[15] Patrimonial capitalism is often associated with natural resource rents, but political leaders can also engage in clientelism without access to such rents. In the wake of market reform and globalization, fewer countries fall into the extremes of state intervention found in earlier developmental states and crony capitalism. Yet, on the rentier side, the numbers may be growing, so it is useful to retain the concept of political capitalism.

In sum, the goal of this section was to lay out the main static differences among the four varieties and examine how distinct principles of markets, negotiation, trust, and hierarchy generate different relations among firms, between owners and managers, and between workers and managers. In turn, aggregating these distinct sets of relations lays the foundation for four ideal-typical varieties of capitalism. The next sections turn from static differences to dynamic interactions, especially within hierarchical capitalism.

III. Complementarities and Compatibilities in HMEs

For Hall and Soskice, the glue holding CMEs and LMEs together is complementarities across different spheres of the economy where the presence of one institution increases returns to another. Applied to the broader range of capitalisms considered here, the concept of complementarity requires some further elaboration and extension (see Höpner 2005; Crouch 2005, Chapter 3). For one, complementarities should include negative relationships, where the presence of one institution decreases returns to another. Moreover, the connections across realms of the economy may be weaker than complementarity, and should also comprise compatibilities, where the existence of one institution does not interfere with or impede another (but may also foreclose other institutional alternatives). It is beyond the scope of this paper to analyze the full

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[15] See King (2007) for a recent analysis of patrimonial capitalism in Russia and other former Soviet republics.

range and functioning of complementarities in all four varieties. Since the complementarities in CMEs, NMEs, and LMEs are well covered in Hall and Soskice (2001) and elsewhere (see for example Crouch, Streeck, et al. 2005), this section concentrates on complementarities in the less known hierarchical variety. Then, to illustrate differences in complementarities across the four varieties, the last part of this section briefly contrasts one type of complementarity -- between skill regimes and employment relations -- across all four varieties.

In HMEs, complementarities are strong, but variable across spheres (see Figure 1). The following discussion considers the main pairwise complementarities, with empirical illustration from Latin America. Despite occasional apparent similarities with LMEs or CMEs, complementarities in HMEs have a distinct logic, and the analysis highlights how these complementarities impede evolution away from hierarchical capitalism to either LMEs, NMEs, or CMEs.

-- Figure 1 here --

Business groups, MNCs, and inter-firm disorganization. In terms of inter-firm relations, MNCs and hierarchical business groups both thwart coordination. MNCs often join local business associations, but they tend to participate less actively and have difficulty coordinating with local firms because many management decisions are taken abroad.[16] When managers are foreign, language, culture, and shorter time horizons further undermine potential coordination among firms.[17] Subsidiaries of domestic business groups may also make unreliable interlocutors -- top management is outside the sector and may ultimately decide to exit (or attempt, as often happens, to buy up competitors). Hierarchical business groups also lack the networks that promoted

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[16] As Hirschman (1971, 231) put it famously, "the trouble with the foreign investor may well be not that he is so meddlesome, but that he is so mousy!"

[17] At times relations between MNCs and local firms degenerate into acrimonious divisions and ultimately splits into separate associations (as in the Chilean mining associations (Schneider 2004)). MNCs also fragmented business organization in Spain (Molina and Rhodes 2007, 238).

'group-based' coordination in NMEs. Moreover, hierarchical business groups tend to diversify into completely unrelated sectors where there is little if any communication among subsidiaries (Schneider 2007b). Put abstractly, sustained coordination is unlikely among agents (in subsidiary firms) of distant hierarchical principals (MNCs or group owners) with opaque and diverse interests.

In addition, MNCs and domestic business groups impede movement towards markets in corporate governance, because they substitute for, and supplant, domestic stock and financial markets, and thus slow their expansion. In Latin America in the 1990s, MNC acquisitions of domestic firms contributed to the fall in the number of listed firms, because MNCs de-listed their new subsidiaries (see (Stallings 2006)). Groups too, because they internalize capital market functions, supplant stock and credit markets. Moreover, while many groups list subsidiaries or parent holding companies on stock markets, the family owners usually maintain voting control, so minority investors have fewer incentives to buy in, which further depresses potential expansion in stock markets.

<u>Inter-firm disorganization and atomized labor</u>. In political economies where they negotiate frequently, business and labor have incentives to organize to match their counterparts. If labor is well organized, then returns to business investment in collective action are higher, and vice versa. In HMEs (as in LMEs) business and labor rarely negotiate and the disorganization of one reduces returns to organization for the other. In Latin America, the relative disengagement of business and labor with each other means that both groups tend to organize more to engage the state (Collier and Collier 1991; Schneider 2004).

<u>MNCs, business groups, and low skills</u>. The lasting, perverse complementarities of a low-skill trap or equilibrium are well known (Booth and Snower 1996). The basic coordination problem is that workers do not invest individually in acquiring skills because firms do not offer high-skill, high wage jobs. Firms in turn have incentives to invest in production processes that do not require skilled labor because skilled workers are scarce. This low skill trap seems to hold strongly for HMEs.

Both MNCs and business groups have relatively low demand for skilled labor. Domestic business groups tend to specialize in lower technology commodity sectors and services, and had fewer incentives to invest in R&D, hire scientists and engineers, or train highly skilled workers. Some MNCs are prominent in higher technology sectors, but several factors depress their demand for highly skilled workers. MNCs usually invest in established product markets with stable technologies that they have established in their home markets. The skill and training requirements were consequently lower because MNCs had already worked through many of the initial problems when they first set up production in their home markets. Moreover, MNCs keep their R&D at home. By the 2000s, MNCs were investing virtually nothing in R&D in Latin America (ECLAC 2005). Lastly, MNCs are not likely to be a force (voice) pushing for upgrading education and skills in any given country because they have so many options in other countries (exit). In sectors characterized by low transport costs and decentralized production -- automobiles for example -- MNCs can locate plants with varying skill requirements in areas where skills are already available.[18]

Atomistic labor relations and low skills. When job tenure is brief and unions at the firm level are weak or absent, then employers have even fewer incentives to invest in worker skills both because they expect workers not to stay long and because they lack institutional means for negotiating with workers an explicit distribution of gains over time from investing in training. For workers, short tenure also limits their time horizons and lowers their interest in investing in firm specific skills, or even in sector specific skills if they move regularly among different sectors.[19] High turnover also reduces the incentives for both labor and management to put energy into improving plant- and firm- level intermediation (see Schneider and Karcher 2007).

Low skills and business groups/MNCs. The absence of a large pool of skilled workers further discouraged domestic firms from investing in upgrading their production or in other higher

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[18] Note, intra-firm trade and global production networks account for most trade in Latin America and constitute another element of hierarchy in these political economies (see Zeile 1997).

[19] Among Chilean workers who changed jobs in the 1990s, over half switched from one sector to another (Sehnbruch 2006).

technology sectors.[20] Low technology investment coupled with high labor turnover may also facilitate diversification. That is, lower technology investment and the management of homogeneous flows of temporary, low-skilled workers became elements of, and increased returns to, economies of scope. Once a firm had developed a successful strategy for borrowing one technology and using it successfully with a flow of low-skilled workers (in construction, for example), then the barriers for replicating this strategy in other sectors (say cement) were lower (see Amsden 1989). In sum, a range of complementary dynamics across multiple spheres of the economy reinforce core components of hierarchical capitalism. And, though perhaps insufficient to fix a stable equilibrium, these complementarities also stem movement toward any of the other three varieties.

The issue of skills provides a revealing dimension for comparing complementarities across the four varieties of capitalism. In LMEs, short term employment and greater labor market mobility encourage incremental investment in general skills, while the returns to workers are lower for investments in sector and firm specific skills (Hall, P. and Soskice, D. 2001). For LME firms, the wide availability of general skills encouraged (i.e., increased returns to) new start ups (and associated markets for venture capital) drawing on high end general skills, as well as low end service sectors like restaurants and retail that could draw on low wage, short term employment. In HMEs, as just noted, the complementarities were negative: short term employment, and low demand for skills generally, discouraged worker investment in human capital overall. For employers in HMEs, the lack of high end skills discouraged investment in higher technology manufacturing and services and increased returns to investing in commodity production.

In CMEs, longer term employment encourages greater up front investment in sector specific skills (and generous unemployment benefits reduce the risk of this investment). Moreover, multiple and encompassing forums for bargaining -- industrial unions and plant level

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[20] Studies in the United States have shown that technology acquisition did not lead firms to upgrade training and skills, but rather firms that already had skilled workers invested more in new technologies (IDB 2003, 188).

representation for all workers through institutions like codetermination -- provide opportunities for negotiating the distribution of gains in productivity from investment in training. In addition, these negotiations give employers some assurance that, if they invest in workers' skills, skilled workers will not later exploit their leverage over the firm. For employers then, investments in skill intensive manufacturing and long-term incremental innovation have higher returns. In NMEs, the outcome, in terms of returns to investment in manufacturing are similar, but the logic is different because NMEs lack the same mechanisms for negotiation. Instead, trust based expectations of life time employment and seniority based pay raises increased returns to workers from investing in firm specific skills.

In sum, a range of different kinds of complementarities and compatibilities give coherence and continuity to each of the four varieties. Yet, these complementarities are insufficient on their own to sustain a fixed equilibrium indefinitely. In all empirical cases, complementarities are among a range of pressures that shape a process of constant evolution, alongside a series of large exogenous shocks, from economic crises of the 20th century to globalization pressures of the 21st that have reverberated through all capitalist economies. However, to the extent that economies continue on with more or less stable institutional configurations, their respective complementarities are a large part of the story.

IV. Sources of Coherence and Isomorphism

Where do complementary institutions come from? Beyond particular institutional starting points and foundational moments (Streeck 2001; Iversen and Soskice 2007 (forthcoming)), the internal logics of different varieties encourage stakeholders over time to adopt the full package of complementary institutions. Hall and Soskice argue that economies with coordination or markets in several spheres of the economy will tend to develop more of the same in other spheres (2001, 18). Once workers or employers in CMEs, for example, realize the benefits of coordination in one realm, they are more likely (and have the organizational capacity) to extend coordination to other areas, as well as to push the state to help them achieve coordination. This process of recognizing joint gains and extending them is also a plausible mechanism for isomorphism in NMEs.

However, this same logic of isomorphism cannot theoretically hold for market and hierarchical capitalism where economic agents are not realizing joint gains through bargaining or trust.[21] Rather, managers and owners in LMEs and HMEs use their power and autonomy to push for, respectively, markets and hierarchies in other realms. Managers in LMEs seek greater flexibility, and in fighting external restrictions, coming from either government or unions, they have incentives to push for market relations in other realms. Managers (who themselves may have relatively brief tenure) are subject to the short term monitoring of the stock market ("making the numbers"), and have incentives to maximize flexibility to meet immediate targets. In HMEs, the goal is less market flexibility and more managerial control, though the process and politics often look similar to LMEs as owners work to restrict interference by unions and government.

Over time, coordination, networks, and negotiation, as well as their institutional foundations like business associations, keiretsu networks, labor unions, and codetermination require continual investment and repeated commitment by the stakeholders, as well as the state, to sustain them. In contrast, markets and hierarchies have greater institutional inertia and need less active support to persist. Moreover, it seems to require less effort to shift from coordination to markets and hierarchies than vice versa. In most realms it is more difficult to build networks of trust or institutionalized negotiation in LMEs and HMEs, than it is to introduce markets and hierarchy to undermine or displace networks and bargaining in NMEs and CMEs.

Empirically, however, these pressures for isomorphism are uneven and limited, and have not pushed all countries towards purer types. Many countries sustain anomalous features (strong unions, for example, in LME countries like Great Britain (historically), Ireland, and Australia) for long periods (despite employer pressures to make them more institutionally compatible). Other

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[21] See Höpner (2005) for a full review of different theories of institutional coherence. Rather than engage this broader debate, the goal of this section is to emphasize a simpler argument that the sources of isomorphism are not the same across all varieties.

countries maintain clearer hybrid mixtures of institutions over long periods (what Hall and Soskice call the Mediterranean variety including France and Italy).[22] Moreover, other pressures may counter isomorphism. For instance, the recent expansion in stock market activity (spurred in large part by the entry of foreign portfolio investment) is displacing banks and cross shareholding, and reducing blockholding and in the process making many CME and NME economies resemble LMEs more. However, some of these same exogenous pressures, especially increasing capital flows, as well as high demand for commodities, seem to reinforce isomorphism in LMEs and HMEs, which underscores the main point that the sources of isomorphism are variable across types.

Beyond these internal dynamics, CMEs and LMEs are associated with, and supported by, different electoral systems (see Table 5) (Hall, P. and Soskice, D. 2001, 49–50; Cusack, Iversen, and Soskice 2007; Iversen and Soskice 2007 (forthcoming)). Majoritarian political systems in LMEs tend to have wider policy swings from election to election, and therefore encourage firms to maintain flexibility (through market relations) in order to adjust to shifts in policy (Gourevitch and Shinn 2005). Political systems based on proportional representation (PR) and parliamentary government, in contrast, generate coalition governments where business and other stakeholders usually get minority, veto representation which in turn promotes the policy stability that facilitates the long term relational investing characteristic of CMEs and NMEs. While this correlation with electoral systems holds for OECD countries, the connections between economic and political institutions are less apparent in developing countries where electoral and party systems are in flux and policy stability is rare, regardless of features of the electoral and political system.

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[22] For a stronger argument that purer types generate higher growth than hybrids, see Hall and Gingerich (2004).

Table 5. Political Institutions and Policy Stability

	Liberal (LME)	Coordinated (CME)	Network (NME)	Hierarchical (HME)
electoral system	two party majoritarian	proportional representation	proportional representation	varied
Policy continuity	low	high	high	low

Given these arguments on OECD countries, one might expect policy instability to push developing countries towards LMEs. In fact, HMEs are as well adapted as LMEs to respond to short term swings in policy and macro economic volatility. Because they substitute for financial markets, MNCs and domestic business groups constitute non-market forms of organizing investment and technology, yet, in contrast to the effects of non-market coordination in CMEs and NMEs, there are fewer institutional incentives for their investment to be patient. The non-market features of corporate governance in HMEs allows business groups and MNCs to respond flexibly and rapidly to market signals; both corporate forms are well suited to managing swift entry and exit (Schneider 2008). This agility of closely controlled business groups contradicts arguments that dispersed ownership in LME corporations is a functional adaptation to the larger policy swings associated with majoritarian governments in LMEs (Gourevitch and Shinn 2005, 10; Hall, P. and Soskice, D. 2001). In some ways hierarchy may be an even better adaptation for managing volatility, because controlling families do not have to consult with corporate boards or worry about the reaction of the stock market, as managers in LMEs do.

While each variety may be more compatible with particular political systems and levels of policy volatility, some countries, particularly poor countries, are also subject to greater international constraints and influences that may also limit their ability to develop more cooperative varieties of capitalism. For transition economies in Eastern Europe, the European Union imposes a wide and deep range of economic and institutional conditions. In the Americas, regional agreements like Nafta and Mercosur are not as constraining as the EU, but pressures by the United States and multilateral lending agencies (the Washington consensus) to keep markets open, especially financial markets, also constrain institutional options. In most respects, LME and HME institutions do not conflict with these external constraints, and are thus favored outcomes for developing countries.

In sum, the sources of isomorphism and broader compatibilities with political systems differ across the four varieties. Institutional coherence in CMEs and NMEs is more likely to result from collective action by stakeholders who draw on organizational capacity to realize joint gains in other realms. In LMEs and HMEs, in contrast, institutional coherence is more likely to result from managers and owners, respectively, exploiting their autonomy and prerogatives to further individual incentives to enhance flexibility. In terms of political systems, CMEs and NMEs function better in PR systems with more stable policy environments, while LMEs and HMEs thrive in more volatile systems.

VI. Theoretical Conclusions and Policy Implications

On the theoretical side, to recapitulate, this paper sought to make four core contributions to the debate on comparative capitalisms. First, it attempted to inject more deductive principles into what is often a discussion about empirical clustering. The four ideal types are thus structured by four guiding principles of markets, bargaining, trust, and hierarchy that consistently inform relations among stakeholders. Second, this four fold typology introduced a new principle, hierarchy, that was missing from earlier debates, but that has long been a basis for non-market relations in capitalist systems. Third, the inclusion of hierarchy allows a broader consideration of types of firms, especially MNCs and diversified business groups that dominate production in much of the world. Bringing MNCs back in as more than simple institution takers is crucial to understanding the potential impact of globalization, economic integration, and the evolution of non-OECD economies. Lastly, the incorporation of HMEs extends the potential geographic scope of the varieties of capitalism perspective to include much of the developing world.

On the policy side, one of the benefits of a 'variety of capitalism' perspective is that it directs attention to the sources of good jobs. This perspective is important to policy making in the advanced economies, but even more so in contemporary debates on development and market reform. Policy reforms in the 1990s focused heavily on what in retrospect were fairly abstract policy goals: markets, private property, and state retraction. Many more concrete benefits were presumed to flow from these abstract goals such as efficiency, higher productivity, and ultimately sustainable development. As these benefits failed to materialize quickly in many developing countries, policy attention turned to 'reforming the reforms' to promote more specific goals like better education, health care, and regulation. Yet, it was still rare for policies to target the creation of the kinds of high skill, high wage jobs necessary to sustain development and reduce inequality.

Identifying particular types of capitalism and their respective internal logics and complementarities helps specify which policies are "incentive compatible" (Hall and Soskice 2001). So, for example, it is not advisable to invest public resources in sector specific vocational training for workers in LMEs (Finegold and Soskice 1988). Nor, as securities reformers discovered in countries like Chile, is it sufficient to provide legal protections to minority investors to foster the expansion of stock markets in countries where hierarchical business groups dominate (Lefort 2005). Devising more compatible policies is simpler if the complementarities are positive, and policy makers can seek out incremental policy adjustments to fine tune these complementarities or mitigate the negative impact of external shocks on them. Where, as in the low-skill trap, the complementarities are negative, policy options become more complicated. In such instances, policy makers may in fact prefer to push a perverse complementary relationship out of equilibrium. Such anti-complementarity policies may be promising options for promoting particular development goals, but policy makers need to take into consideration the interconnections with other spheres that may compromise policy effectiveness. Lastly, Hall and Soskice (2001, 45) argue that policy should focus less on inducing changes in behavior among economic agents and more on encouraging them to coordinate better among themselves. This advice may hold for developed countries, but it seems less relevant for HMEs in developing countries. Where economies are dominated by a smaller number of large hierarchies, it may be difficult to induce better cooperation among economic agents, and governments may therefore need to use blunter, more direct and heavy handed policy instruments that are deliberately 'incentive *in*compatible.'

Among other major policy implications is the caution that shifting towards a more coordinated variety involves heavy sustained investment in institutions of the sort that is beyond the capacity of most political economies. Therefore, to the extent countries have options of pushing their capitalism in one direction or another, it is institutionally less costly to push towards LMEs or HMEs. However, as many governments in developing countries discovered, moving towards markets does not automatically create LMEs. Many of the policies in the 1990s neoliberal Washington consensus pulled the state out of various forms of intervention and introduced more market forces and private property. However, these policies often favored MNCs and business groups and thereby reinforced hierarchy on the capital side. At the same time, labor markets left to market forces did not respond by generating greater investment in skills. Rather labor markets, especially in Latin America, bifurcated with high returns to a small groups of new high skill (college educated) employees in expanding services (finance for example) and low returns to the mass of new jobs in low end service jobs (and the informal sector) (Stallings and Peres 2000). Thus, market reforms often reinforced hierarchical capitalism rather than setting economies on the fast track to LMEs.

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Figure 1: Core Complementarities in HMEs