

Understanding a state's model of capitalism:
Key points regarding the Varieties of Capitalism (VOC) approach and
other models of capitalism to understanding capitalism and its types

Introduction:

The theories suggesting varieties or different models of capitalism challenge the existence of a singular form of capitalism, mainly the free-market one. They do so not by emphasizing the advantages of socialism or communism, but by indicating the varieties and the different models of capitalism. Unlike Marx, who advocated a system that would be alternative to capitalism, the writers of the theories of Varieties of Capitalism (VOC) and other models of capitalism emphasize the existence of capitalism and its development in a variety of forms. These forms, in turn, are shaped by social - institutional legacy, historical context, cultural orientation, political choices and global influences. Still, there are fundamental differences in the types of theories examining models and varieties of capitalism. These differences are expressed in terms of the grouping of the different nation-states under the models, the perspective, the factor analysis and other indicators, which will be reviewed. This theoretical basis of models of capitalism was further strengthened by the recessions of the German and the Japanese economies in the early 1990s, which symbolised a crisis of the so-called 'coordinated' or continental (or non-Anglo-Saxon) type of capitalism. Both crises have heightened the debate in academic and political circles about the differences of forms of capitalism, questioning the viability of both the Japanese and the German models of capitalism organisation and governance. The debate was also inspired by the accelerated technological change and by the globalisation of the financial markets, embraced first and foremost by the US. As a result, a new literature on models of capitalism has evolved, focusing primarily on the differentiation between the two central strands (represented by the US and Germany), as well as on the impact of globalisation on national models of capitalism and specifically – the policy choices a state has to face in a new, globalised, privately-governed world market.

Hodgson argued that except for the institutionalist school, all other schools were insensitive to the different structures and to the varieties within capitalism,¹ as well as to the different cultures and institutions which characterise the different kinds of capitalism. Variety of existing capitalism includes variety of institutions, firms, corporations and economic actions.

The school of 'varieties of capitalism' refers to the specific approach developed by Hall and Soskice², based on previous classifications, which identifies two principal types of market economies. 'Models of capitalism' is in fact a general title to other theories examining varieties or models of capitalism.

Hall and Soskice developed the VOC approach to understand macro- economy and the institutions within it, which is centred on firms. They formed a prominent agenda of varieties of capitalism, basing it on previous examinations of models of capitalism (mainly Albert, 1993). They sharpened further the European-oriented classification made

¹ Hodgson, Geoffrey M. Autumn 1996. "Varieties of Capitalism and varieties of economic theory", *Review of international political economy*, 3:380-433, p.418

² Hall and Soskice. 2001. 'An introduction to varieties of capitalism', in Hall, Peter A., Soskice, David (eds.) 2001. *Varieties of capitalism – the institutional foundations of comparative advantage*. UK: Oxford university press

by Albert, to a more comprehensive model focusing on firms as the central axle of the economy, coordinating their endeavours with other actors in the national political economy. At the same time, other theories of variety or models of capitalism were introduced, classifying the models by using different parameters, categorization and structures.

Crouch and Streeck noted that it is commonly agreed that institutions and culture vary from firm to firm and from country to country³. The politics which generate diversity in the capitalistic models are mostly national, i.e. based on nation-state considerations, essentially – on the political-economic structure; thus, exploring the national economic features of states, they argued that all countries have their variety of capitalism. Also Fioretos,⁴ examining states' preferences, claimed that patterns of national preferences clearly differ across market economies. The variation in states' preferences about an issue is consistent with the internal logic of the individual market economies. Nonetheless, Crouch, in another context, in coherence with the more comprehensive classification of VOC, argued that not each nation has its distinct and individual form of capitalism; national cases may be grouped together.⁵

As for the competitiveness of a model of capitalism, there is a wide agreement that there is no one optimal model or an optimal defined combination of subsystems and institutions within capitalism; each has advantages and competences which are related to the historical context and to the national political economy.⁶ The model of capitalism is a derivative of culture, history, mentality, ambience and economic-political systems, thus particular to each state. Basically, no type of capitalism is superior to another.

Once realising that each state has its own distinct model of capitalism, despite the fact that several national cases can be grouped together, the understanding of the particular national model of capitalism can enable access to negotiation, target the power centres, and facilitate inter-state interaction. The attempt to understand different political economies can be translated into a more empirical examination, in the shape of a national model of capitalism. Once defining the central indicators and structures of the model, national cases can be classified, compared and accessed.

³ Crouch. Colin, Streeck. Wolfgang. 1997 *Introduction: the future of capitalist diversity*, in Crouch. Colin, Streeck. Wolfgang (ed.). *Political economy of modern capitalism – mapping convergence & diversity*. London :Sage publications, p. 1-18, p.2

⁴Fioretos, Orfeo. 2001. *The domestic sources of multilateral preferences: Varieties of Capitalism in the European community*, in Hall and Soskice, p. 213-244, p.215

⁵ Crouch. Colin. 2005. "Models of capitalism". *New political economy*,.10(4) :439-456, p.439

⁶ Hodgson, 1996, p.381

Understanding variation across national systems:

The basic assumption would be that countries have distinct, historically determined national institutional equilibrium, tying together a number of building blocks. VOC and other theories presenting models of capitalism outline a new approach to the comparison of national economies in order to answer questions such as whether there are fundamental differences in national political economies, how they should be construed, and whether they can survive pressures of integration into international economy; the latter confronts external shocks to the national systems, in the shape of dynamic changes in technology and products. These theories focus on variations among national political economies, assuming that many of the most important institutional structures, such as systems of labour market regulation, education, training and corporate governance, depend on the presence of regulatory regimes sustained by a nation-state. National-level differences are to be defined, then, in a more general or economic context, considering also the interaction between the different actors.⁷ VOC attempts not only to identify important patterns of similarity and difference across nations, but also to illuminate the process whereby national political economies change. It claims (Hall and Soskice:66) to anticipate institutional change in all developed democracies, through adjustment to contemporary challenges, while providing a framework to import the changes. However, the main criticism regarding VOC focuses on its assumption that economic agents' institutional preferences are to be relatively inflexible, and the institutional change to be incremental, adapted to the logic of the existing institutional change.⁸ These institutional preferences, corresponding with national preferences, are an integration of cultural-mental domestic perceptions, global influences and economic interests, shaping a state's central institutions of power, economic, political or social ones.

Despite considering the dynamics influencing national political economies, convergence of model of capitalism or the transformation from one model of capitalism to another within a state is barely reviewed in most theories examining models of capitalism. Although such convergence or transformation is indicated as inevitable in a way (Howell 2003), due to the dynamic processes shaping market economies, the literature scarcely assesses such processes. This kind of transformation from one type of capitalism to another can't be made without a host of other ensuing changes, what requires an elaborated examination of the central actors, the global interaction and the strength of a national market economy.

All the same, co- existence of two different models of capitalism inside a nation-state is not a well-known or appraised phenomenon. Amable, referring to the EU⁹, argued that it was obvious that the simultaneous existence of two types of capitalism in a nation-state was not possible; economic agents will prefer to engage in marginal institutional reform in order to adapt existing market economy to the new circumstances. That is probably because states' preference is more conservative regarding their model of capitalism, and obviously because of the conflict of interests between the state's central structures of power.

⁷ Hall and Soskice, in Hall, Peter A., Soskice, David, p.4

⁸ Fioretos, in Hall and Soskice, p.220

⁹ Amable, Bruno. 2003. *The diversity of modern capitalism*. UK.: Oxford University press

The theory of Varieties of Capitalism and institutional complementarities:

VOC is actor-centred; it sees political economy as a terrain populated by many actors, seeking to promote their interests in a rational way through strategic interaction with other actors.¹⁰ Those actors can be individuals, firms, producers groups or governments. Typology of governance mechanisms can include, accordingly, markets, states, firms, associations and communities. The actual centre of the VOC analysis of comparative capitalism by Hall and Soskice is the firms, along with business associations and the relationships amid firms in a political economy. Firms, as central actors in the economy, which behaviour aggregates into national economic performance, must engage in several spheres of the political economy. The resulted account is of how some institutions in the political economy can reinforce the operation of others; that is basically an exercise of power, producing nationally distinctive forms of capitalism.¹¹

The VOC is a development of three institutional theory bases: The first is the modernisation approach to comparative capitalism –VOC searches a basis of comparison between economies, more rooted in the private sector organisation, which challenges the pre-war dominating practices, directed to secure high rates of national growth. It is important to note that this basis should be approached without overstating the accomplishments or activities of governments in the context of firm-led economic openness. The second base is neo-corporatism, which was associated with state capacity to bargain with employers and trade unions.¹² VOC attempts to resolve the problem of mixing employers and trade unions' role with the role of firms and employers' organisations. VOC sees this theoretical base as not well adapted to the rather new era of market capitalism. The third theoretical base is the social systems of production, analysing sectoral governance and national innovation systems.

A conceptualisation of these theoretical bases shows governments as a sort of function examined in light of the private sector, as converted to private sector concepts, and practically not a function at all, as implied according to those three bases respectively. The firm-centred approach of VOC appears to extract the role of governments, or to look at it as another function of the firms. That scarcity in governments' contribution to shaping national economies will be elaborated subsequently.

VOC focuses on five spheres in which firms must develop relations to resolve coordination problems: industrial relations; vocational training and education; corporate governance (financing issues); inter-firm relations (with the other factors, like suppliers or clients, collaboration, technology transfer, standards-setting); and employees (Hall and Soskice: 6-7), resolved in two distinct types of political economy – Liberal Market Economies (LME) and Coordinated market economies (CME). VOC conducts the classification of LME and CME in order to analyse how firms and other actors coordinate their endeavours. In addition, this distinction enables to explore the institutions of political economy from a view defining the support needed for different kinds of coordination, linking these institutions to patterns of policy and performance. In LME Firms coordinate their activities with other actors primarily through hierarchy and competitive markets agreements, characterised by arms'-length relations and formal contracting. The exchange of goods and services is subject to the market relations, in the

¹⁰ Scharpf, Fritz W. 1997. "Introduction: the problem-solving capacity of multi-level governance". *Journal of European public Policy* 4(4): 520 - 538 , brought in Hall and Soskice, introduction

¹¹ Hall and Soskice, preface

¹² Hall and Soskice, in Hall, Peter A., Soskice, David, p.3-4

context of competition and formal contracting. Primary role is reserved for the stock market and for the maximisation of shareholder value in achieving economic goals; radical innovations are therefore crucial. LME is best illustrated through the US case. In CME firms mainly depend on non-market relationships to coordinate their relations with other actors, contrasting their core competencies. Those modes of coordination include more extensive relational or incomplete contracting, network monitoring – exchange of private information, and collaborative rather than competitive relationships, building the firm competencies.¹³ Firms coordinate with trade unions, suppliers of financial resources or other actors through processes of strategic interaction, and are closely connected by dense networks of cross-shareholdings and influential employers associations. Social and political institutions engage directly in shaping economic action. An important difference inside CME is between industry -based coordination and group-based coordination, like in North Europe and Japan respectively. CME is best illustrated through the German case.

LME's and CME's differ in their political response to economic challenge, the direction of institutional reform, the way to achieve economic performance, the corporate strategy, and also in their capacity of innovation, while providing stable incomes and employment.¹⁴ Each form of capitalism has a comparative advantage.

Indicators of VOC are product-market competition and regulation, social protection, vocational training, and inter-firm relations. Hall and Gingerich¹⁵ added managerial prerogative, employment tenure, and firm strategy. The indicators further express the strong private sector terminology, framing a market economy or a model of capitalism, as well as the scarcity of the state role (or its retreat) in this classification. For example - social protection is translated into a firm power to interact with employees, thus neglecting the role of national organisations, often governmental, responsible in many cases for social protection.

When analysing national models of capitalism it is important to take account of the institutional complementarities exercised by the different actors, as well as of the comparative advantage of systems, institutions or agents in a national array. Two institutions or institutional practices are complementary if the presence or efficiency of one increases the returns available from the other or the efficiency of the other and vice versa (Hall and Soskice: 17). When considering varieties of capitalism, where institutional complementarities are available across the various spheres of political economy, firms and governments will often adapt their strategies to take advantage of these complementarities.¹⁶ In fact, the essence of institutional complementarities is to examine the coordination between different structures in the political economy; thus, VOC, being actor-centred, identifies potential complementarities between institutional arrangements in the broader political economy, and in relation to the strategy or structure of the firms themselves. The theory of comparative institutional advantage argues that the institutional structure of a political economy provides firms advantage to engage in specific type of activities more efficiently.¹⁷

¹³ Hall and Soskice, in Hall, Peter A., Soskice, David, p.8

¹⁴ Hall and Soskice, in Hall, Peter A., Soskice, David, p.21

¹⁵ Hall, Peter A., Gingerich, Daniel W. 2009. "Varieties of capitalism and institutional complementarities in the political economy: an empirical analysis". *Political studies*: 449-482, p.462-3

¹⁶ Hall and Gingerich. 2009, p.460

¹⁷ Hall and Soskice, in Hall, Peter A., Soskice, David, p.37

VOC Critiques:

The absence of the state's role: Hall and Soskice made the categorisation of two types of market economies from the perspective of firms, in order to define a model of capitalism. However, when sketching such model, taking the state as a marginal factor or as a function is problematic. The firm-centred analysis of VOC is not the essential target of the analysis, it is the perspective to examine a market economy or a model of capitalism as a whole; nonetheless, an analysis based on single factor risks narrowness and a biased or incomplete focus rather than a comprehensive and consolidated model. This is true also when analysing a market economy, since the aim of such examination is to conclude about the national alignment. A general classification risks inaccuracy also when considering the particular capacities of those states, taken into account by the authors.

Hall and Soskice emphasized that the VOC approach can also be useful in analyses of political economic systems that do not belong to these two categories; those two institutional forms are not the only ones firms can employ to resolve the challenges they face. Still, they did not present explicit alternatives in the VOC theory. Although VOC developed the doctrine of institutional advantages, this cannot fully relate to a theory which generalises two strands. The government and the private sector are mostly the more inclusive institutional complementarities in a state, and a central axle of analysis. Additionally, the authors shared the conception that each economy has specific capacities for coordination, which will condition the activities of its firms and governments.¹⁸ Yet, their model does not examine the different economic policies, financial structure and economic thinking of different nations, nor their particular mental-cultural codes, but groups them under two different types of market economy. They did not induce their classification as a result of a separate examination of various national economies, but derived states' models as one of the two types of the economy – LME or CME, reflecting the central strand of market economy's types.

Although VOC indicates specifically that its focus is on firms rather than on other institutions of the political economy, such as governments, it is difficult to base an analysis of national political economy or even market economy without placing governments in a central position. An analysis which characterises economies through the private sector, while placing the government as a function or another actor, coordinating with others, risks being partial or limited. The nature of the firms in a nation-state is what determines the economic –capitalistic model in VOC, unlike other models of capitalism, inspired more by the institutional interaction between the political-economic factors. A possible explanation to the marginal or equivalent place of the state role in VOC is that as an institutional analysis examining why the world has varieties of capitalism and institutions which intersect to reinforce them, VOC permits identification of the different institutional logics of capitalistic growth. Hall and Soskice tried to settle this dilemma, stating that varying business-governments relations in VOC condition the policy regimes of governments. Employers' interests determine the content of the policies (Hall and Soskice: 46-7), but the nature of the business-government relations and the political structure contribute to the effectiveness and the stability of the coordination. VOC distinguishes market-incentives policies from coordination-oriented policies. Nevertheless, firms may avoid cooperation with governments, due to different interests;

¹⁸ Hall and Soskice, in Hall, Peter A., Soskice, David, p.35

therefore governments are again a side factor in the analysis. It is clear that it is almost impossible to gather firms into a homogeneous group which interests and institutional logic can be identified with that of governments. Both conflicts and cooperation are subjective to each nation, and are mostly dominated more by governments, rather than by firms.

Howell (2003:110) further fortified that critical point of government absence in VOC, claiming that it offers a thin notion of politics and state action, since governments are mainly seen as encouraging coordination between economic actors, working in favour of employers. It seems that neither states' interests are distinguished from those of the central economic actors, nor that the states have the capacity to act against employers' interests. This, again, expresses the critical difference between a factor-centred analysis and an analysis based on coordination between actors. Despite some VOC attempts to integrate those two modes of examination, it clearly seems to apply to the first. Howell took it a step forward, pointing at the Neo-Liberal Capitalism (NLC) approach, which describes the centrality of state action, political conflict and historical contingency in institutional construction, maintenance and change. According to NLC, basically all market economies are subject to coordination, mainly of the state; evolution is partly path-dependant and partly affected by exogenous shocks. Howell actually suggested, after examining the two models of capitalism offered in VOC, a repeated integration of the state.¹⁹ Schmidt too argued that in VOC there is barely a place for state capitalism,²⁰ due to a belief that this model has lost its empirical validity.

Also Streeck (1993), assessing the secondary role of the state and of the political conflict in VOC, argued that state role must be inherent in the analysis of models of capitalism, due to the economy's dependence on public regulatory regimes. In this context it is interesting to examine the retreat of the state in favour of the private market by Strange, who indicated three reasons for overstating the role of national institutions and national policies: the general decline in governments' ability to manage national economies; the growth in transnational regulation of capitalistic behaviour, while regulation was supplanted and national differences eroded; and the de-nationalisation of firms, losing their identity in favour of the professional importance of the headquarters location.²¹ To survive as a major economic player, the state should grasp the economic power of collective actors, and strengthen value-creating forces in the economy and in the society; yet, this dimension in VOC is pretty much neglected. Even in cases of LME, such as the US, the state retreat is actually a crucial component in the rise of the free market; thus, also a policy of a government's power elimination is an important strategy undertaken by the state, what implies the latter's active role. A path building on that approach, incorporating political origins of national institutional arrangement, is emphasizing contingency, political contestation and the central role of the state as key historical-institutional construction.²² Changes in the effectiveness of different sets of political-economic arrangements are in fact products of changes in the basic nature of capitalistic economic growth.

¹⁹ Howell, 2003, p.109

²⁰ Schmidt, Vivien A. 2002. *The futures of European capitalism*. New-York: Oxford university press, p.109-10

²¹ Strange, Susan. 1997. *The future of global capitalism; or, will divergence persist forever?*, in Crouch and Streeck (ed.):182-191

²² Howell, 2003, p.121

Therefore, also when approaching the private sector, the understanding its inclusion in a national political economy, thus evaluating the central role of the state, is crucial in order to yield productive and efficient results.

Howell expressed another critical angle regarding VOC, arguing that it lacks the theorizing ground articulating the uneven and interdependent development of national capitalism and its contradictory elements, such as crisis tendencies and propensities for perpetual reinvention within capitalistic economies. There is a need to explain both stability and rupture, and to express the exercise of class power which underlies coordination and equilibrium in political economy.²³ Howell argued that in VOC the framework is privileging regime stability over crisis, institutional continuity over discontinuity, internal coherence and equilibrium over internal contradiction and crisis, coordination and mutual accommodation over conflict and contentions, policy over politics, and business over state and labour.²⁴

Despite the tendency of firms to seek coordination with the appropriate governmental institutions or actors, to match their interests, VOC is designed to regard the overarching institutional structures of political economy. In particular, those structures which accumulate the wills and the interests of many actors, such as markets, institutional networks and organisations, supporting the collaborative endeavours, which are often created or controlled by a specific firm. The basis of the analysis, though, is the firm; a single firm cannot create collective institutions, and those are also difficult to be agreed on by a group of firms. Neglecting the firm as organisation is another outlook of the coordination problem.

VOC has, according to Crouch (2005), difficulties in distinguishing firms, which are presented by the relations between management and shareholders, and also as an organisation and as a marketplace. Another serious deficiency for Crouch is that VOC mis-concepts the work of individual innovative companies. Also Streeck criticised Hall and Soskice for allowing no evolutionary development in their analysis and ignoring the impact of change in the world economy.

Whitley raised another critical point about VOC - it has problems to identify the exact modes in which competitive pressures have particular ways of organising economic activities under different circumstances. VOC presumes the existence of systematic rationality governing economic activities, separated from social agreements.²⁵ Crouch further elaborated this point stating that VOC has advantage in focusing on firms as actors, rather than providing macroeconomic approach to study economic successes; still, this advantage is diminished in front of the fact that the model allows the firm autonomy outside its macroeconomic context.²⁶ Indicators of globalisation, trans-national corporations (TNC's), and global politics, surrounding the economic activities of firms, are therefore essential when characterising a model of capitalism or a market economy.²⁷

²³ Howell, Chris. 2003. "Varieties of capitalism: and then there was one?". *Comparative politics* October: 102-124, p.122

²⁴ Howell, 2003, p.121

²⁵ Whitley, Richard. 1999. *Divergent capitalisms – the social structuring and change of business systems*. New-York: Oxford University press, p.4-5

²⁶ Crouch, 2005, p.444

²⁷ Hall and Gingerich. 2009, p.454

Other models of capitalism:

Albert,²⁸ who was the first to conduct the division of two types of economies, is closely related to VOC. Albert made a very comprehensive division to two groups, and named them differently than VOC. The VOC model is somewhat a sharper and more illustrative version of Albert's model, taken from the firm-perspective. Albert sketched two main forms of capitalism in Europe, which were the basis of the differentiation between CME and LME: the first is the liberal unregulated form of Thatcher and Reagan, of millions Hobbesian individuals with no special cohesion, which he warns against. Reagan-Thatcher 'conservative resolution' was against a too powerful state and its intervention. That Neo-American model (NA) is based on individual success and short-term financial gain. The cornerstones of the American power were capital investment, natural resources, technology, monetary privilege, and American cultural domination, consolidating an Anglo-Saxon model defining free-market capitalism. The second form of capitalism has two complementary sides: The Alpine aspect – which is seen from a monetary and financial angle and embodies all anti-American features; and the Rhine aspect – social component of economic policies and practices, mainly in Germany(Albert: 18-9). Liberal capitalism is common to both, but they have contradicting internal logic. Financial services industries stand in the basis of the Rhine model, rather than speculative financial markets. The state may encourage the market, but it is not an equally active player in it, despite its prominent presence. Nonetheless, the Rhine market is still a social market, so social institutions are very important.²⁹ Albert emphasized the economic and social superiority of the coordinated model, despite the psychological and political advantage of the NA model. The main indicators are the gap between top and bottom, the military sector's structure and its close connection to governments, the distribution of financial resources for business development, the banking sector which leads to mutual interest networks, the social implications, the strategy of more or less state regulation, and the question of power distribution between companies (presented either as a negotiable good or as a community, rather than only as a commodity – mixed good), including owners, management and employees.³⁰ Albert, in fact, despite inspiring VOC, did not conduct the segregation between two types of market economies based on one actor, like firms or state. Instead, he identified two models of capitalism, based on political-economic factors and on geography, considering several central actors of every nation-state.

Whitley (1999:47) used a similar approach, also considering political-economic factors equally, stating that the institutional features can be characterised and compared across market economies in terms of four major arenas: the state, the financial system, the skill development and control system; and the dominant conventions governing trust and authority relations. Also VOC saw comparative political economy as revolving around the conceptual framework used to understand that institutional variation across nations; the results of the analysis depend on a range of questions: policy related; firm related and Economic performance.³¹ However, VOC uses these indicators only as derivatives of

²⁸ Albert, Michel. 1993. *Capitalism against capitalism*. London: Whurr publishers ltd.

²⁹ Albert, 1993, p.124-5

³⁰ Albert, 1993, p.10-12

³¹ Hall and Soskice, introduction, p.1

firms. Whitley provided a more comprehensive, thus accurate look on market economies, providing stable ground of comparison.

Vivien Schmidt (2002) introduced three models of European capitalism, (mostly valid until the 80's). She basically extended the VOC approach into three theoretical accounts, although she was focusing on Europe solely; however, the central axle in Schmidt's analysis is the state, unlike the firm-centred actorness of VOC: Market capitalism – liberal states allow economic actors to operate autonomously and to freely decide on market operations– similar to the LME model; Managed capitalism – states encourage economic actors to cooperate and coordinate the direction of activities with the state. That model is similar to CME; and State capitalism – interventionist states, of the French kind, organise cooperation among autonomous economic actors and direct their economic activities. The last model is complementary to VOC (and is similar to Albert's Alpine model), stating that despite the decline of the state, its historical legacy and its consistent presence as a central actor in every political-economic process are significantly important when enhancing national economic capacity. Three central components are distinguishing those three models: the structure of business relations, the structure of government relations, and the structure of industrial relations. Schmidt's analysis (besides adding the third dimension to VOC) is more concrete than VOC in terms of the scope of examination, narrowed to Europe. In addition, notwithstanding the parallel line with VOC, she considered the state as a principal factor in the analysis, or even the one dictating the direction and the nature of the economic activity. That is similar to the notion of Strange, in the sense that the retreat of the state is actually fortifying its position as an actor which is shaping the nature of the markets and their economic activities. Even in market capitalism the state is a crucial actor rather than a function. The differentiation of those three models is based, genuinely, on the interaction between business and governments. In her perception of the role of the state, Schmidt in fact enabled the processes of globalisation and privatisation to leave their significant impact on free-market policies, and avoided the VOC criticized points in that subject, while still keeping the state as a central actor, even in liberal market economies.

David Coates³² made a similar division to that of Schmidt, examining more qualitatively whether there is a right way or a wrong model, or whether a range of viable models exists. Coates showed how difficult it was to find the type of capitalism which creates the optimal economic performance. The question of quality, for Coates, or more adaptively – competitiveness, can be more relevant when related to theories providing specified models of capitalism, based on national cases, than when related to the VOC classification. Nonetheless, Albert, for example, expressed a clear preference to one model; others saw the versatile national models as non-comparable in a way, since they reflect cultures, traditions, social structures and other factors which cannot be compared across states in terms of competitiveness.

Coates argued that a choice should be a choice between three alternative models of capitalism: Market-led form and two more trust-based forms: State-led capitalism, and Negotiated or consensual capitalism, which is built around the explicit accord between capital, labour and state. Coates' indicators were related to measurement of economic

³² Coates, David. 2000. *Models of capitalism – growth and stagnation in the modern era*, UK: Polity press

performance.³³ Also Coates' analysis does not fully define one central axle, such as firms or state; instead, it describes the type of interaction between those factors, when categorising them under the relevant model of capitalism.

Howell (2003) analysed the theory of Coates, placing institutional arrangements in the centre his analysis. Howell's argument emphasised the uneven development of capitalism across the world, and the conflictual class arrangements underlying the institutional configuration of the capitalist economies. His theory is centred on the most profitable models, producing economic growth at relatively low social costs. By that he actually tried to set a standard to compare competitiveness of models of capitalism. Examining the theory of Coates, Howell argued that Coates offered much more than VOC about liberalism, since VOC mainly deals with CME. Coates' second contribution, according to Howell, was the importance of class context within which institutions operate.³⁴ The third difference or contribution of Coates was the focus on the temporal dimension of the capitalist development. In addition, he acknowledged that institutions regulate economic growth, matched with economies' development over time. That, in fact, questions the existence of one model of capitalism in a state. One model does not effectively reflect changes over time, also due to exogenous and endogenous factors, affecting the structure of the national political economy.³⁵ Although Coates did not describe or illustrate transformation of one type of capitalism to another, Howell, as mentioned above, actually indicated the inevitability of such process.

Both Crouch and Amable defined the models of capitalism as a direct result of the analysis of national cases. Crouch (205:440) made a more specific classification of models of capitalism: the free-market model of neo-classical economics, and other types, related to national cases. He defined three modes of interest intermediation: contestation, pluralist bargaining, and neo-corporatism – relating mainly to unions.³⁶

Amable³⁷ presented five groups of capitalism in a more elaborative division, based on case-studies analysis among 21 OECD countries: market-based (Anglophone); social-democratic (Nordic); Asian (Japan and Korea); Continental Europe, and Mediterranean (southern Europe). He chose social system, innovation and production as the central indicators, along with institutional complementarities based on product market, labour market, financial system, social protection/welfare, and education system. Amable determined and shaped his model directly through examinations of specific states, while in due course the analysis of one state could be joined to that of another. This is obviously different from a general observation on a group of dominant states with common fundamental factors of market economy, consolidated into one model.

Lazonick and West³⁸ highlighted three varieties of capitalism which differ significantly in the extent to which economic activities are organisationally integrated and in the ways in

³³ Coates, 2000, p.9-12

³⁴ Howell, 2003, p.118-19

³⁵ Howell, 2003, p.121

³⁶ Crouch, Colin. 1993. *Industrial relations and European state traditions*. London: Oxford press

³⁷ Amable, Bruno. 2003. *The diversity of modern capitalism*. UK: Oxford University press

³⁸ Lazonick, William, West, Jonathan. 1998. *Organizational integration and competitive advantage*. In Dosi, al (ed). *Technology, Organization and Competitiveness*. UK:Oxford University Press

which firms pursue innovation-based competitive strategies: Proprietary capitalism - dominated by vertically and horizontally specialised firms coordinating inputs and outputs through market contracting, like Britain; Managerial capitalism – as in the US, dominated by large, vertically integrated and often horizontally diversified firms, ran by salaried managers, in hierarchical authority structure; and Collective capitalism – even higher levels of organizational integration of economic activities, in means of extensive long-term collaboration between firms in business groups and networks, within and across sectors, like post-war Japan.³⁹ Such model, in fact, suffers from the same difficulties as VOC, since it does not involve the dominant impacts of the state, and is more elaborative in terms of organisation of economic activities. Their analysis refers directly to a type and a way of organisation of economic activities, rather than to a model capitalism, therefore the absence of the central role of the state makes more sense, although it still lacks legitimacy. The analysis of the economic system rather than the sketch of a model of capitalism legitimises paying less attention to the crucial factors of the political-economic arena.

Chandler,⁴⁰ in a very specific division, provided a more concrete examination, presenting three types of managerial capitalisms: Competitive managerial capitalism – the ‘visible hand’, like in the US, dominated by managerial bureaucracies, specialization in skills, separation of ownership and management, expansion of production sites, investment in R&D, and gradual move to multi-divisional organization; Personal capitalism, like in Britain – dominated by family-owned firms, and Cooperative managerial capitalism, such as Germany – combining US management aspects, like large managerial hierarchies, along with continued family control, inter-firm cooperation and greater workforce paternalism. Chandler, when mapping the models of managerial capitalism, focused on the management of the economic system, referring to the managers of the firms. The lack of direct reference to the role of the state is more coherent also in this case, since the analysis focuses on managers and management hierarchies within the private sector; therefore the presence of the state, whether dominant or less significant, is actually an external factor to the subject of the examination. Chandler tried to define an important aspect of the economy, rather than to define the economic system as a whole.

Orru defined three capitalistic typologies: Alliance capitalism- combining horizontal organisational lines of institutional cooperation among organisations in political, economic and other social sectors, along with vertical arrangements structuring the actions of groups of organisations engaged in related activities, and considering the strong horizontal linkages among social institutions, within geographical-regional-national levels of economic and political institutions;⁴¹ Dirigist capitalism- a pyramid incorporating multiple institutional levels, connected hierarchically to each other, with the leadership of the nation-state; and Familial capitalism- horizontal connection where economic and political structures are developed apart from each other, but along similar organisational patterns. The core of the economic and the political networks is constituted by personal connections among individuals. Orru outlined six main features: dominant

³⁹ Whitley, 1999, p.8

⁴⁰ Chandler, Alfred D. Jr. 2002. *The visible hand – the managerial revolution in American business*. US, brought by Whitley, 1999.

⁴¹ Orru, Marco. 1997. *The institutional analysis of capitalist economies*, in Orru, Marco, Biggart, Nicole Woolsey, Hamilton, Gary G. *The economic organisation of East Asian capitalism*. US:Sage publications: 297-310, p.307-9

economic units, modal economic interactions, modal means of organization, inter-firm relations, formalization of transactions, and the extent of non-contractual enforcement, related also to the 'rationality context of economic action' and to the types of political system. Similarly to Chandler, Orru's analysis is structural in the sense that it tries to characterise the cooperation or the coordination along the institutional lines of the political-economic alignment. His analysis examines the linkages between the different factors constituting the capitalistic typology; hence it does not focus on one central factor, such as firms or state, but deals with the coordination between the factors, forming the model of capitalism. His focus is on the way capitalism is shaped by means of the interaction between the actors. The typology of capitalism is shaped by the way the central actors coordinate, while their interaction is not examined from the perspective of one actor, as the firm-centred VOC, but is based on the examination of all central actors.

Whitley (1999) approached the models of capitalism from a different perspective, defining sociological models of capitalism based on six types of business systems: fragmented; coordinated industrial district; compartmentalised; state-organised; collaborative; and highly coordinated. There are different links between these types and several fundamental institutional contexts, such as the state's financial system, skill development and control, and trust and authority relations. Whitley 'comparative business approach' (1999:5) aimed to explain how and why forms of economic organisation diverge in specific ways. He assumed that economic relationships and activities are socially constituted and institutionally variable, so the ways in which competitive processes operate, the nature of the actors engaged and the outcomes vary significantly across social contexts.⁴² In fact, when considering the social context as the base of comparison, Whitley actually considered national-cultural and historical characteristics, which influence directly on the nation-state. Hence, even if not explicitly, the state can be seen as standing in the basis of his analysis.

⁴² Whitley, 1999, p.5

F. In Summery:

The literature examining varieties and models of capitalism basically provides two alternative ways of analysis: defined classification of two or more central strands, under which national economies are categorised, or a more specific division to models, which derives directly from the case-studies of nation-states. The dimension of classification differs as well amongst the different theories: it could be a particular type of capitalism, based on a single nation-state, and it could be a group of nations with similar characteristics. The classification, again, can be from micro to macro and vice versa; from the particular cases to a type of market economy, or from a type of market economy to the national cases that are attributed to it.

It is important to note that there is a difference between analyses of capitalism, of market economy or of business system. There is a fundamental divergence between the theories examining models of capitalism in their characterisation of capitalism - through the type of the economy or of the private sector, via the state, or by the coordination between those factors and others. Theories of models of capitalism choose different approaches in order to try to describe a national model of capitalism, or to attribute a state to a more generic model.

When analysing a model of capitalism, the variables employed in the factor analysis are to be defined. Those should reflect the structure of power in nations, usually, therefore, the central axle of the analysis would be the state-private sector.

An analysis of a model of capitalism must also include the transformation or convergence from one model to another, taking account of the inevitable domestic changes and of the external dynamic influences.

The interaction between the actors of a political economy stand at the basis of a model of capitalism. Some components are more important than others; however, the basic assumption is that they are all essential in order to understand a national model.

It is through examination and evaluation of a national model of capitalism that the power of external actors and the influence of global processes on a nation-state can be estimated or measured. Rather than understanding a more abstract concept of political economy of a state, the sketch of its model of capitalism, which can be compared with other states, based on common indicators and factor analysis, is the crucial instrument enabling a more efficient and productive states interaction. It is ,than,a solid basis to approach different market economies and inter- state relations.

When mediating cultural diplomacy, the understanding of the relations between the state and the private sector, including economic institutions, social and cultural ones, is the language to achieve a genuine cooperation. Building a conceptual framework of national models of capitalism spills light on the overlapping qualities, the substantial differences and the mutual interests in the diplomatic structures connecting states. A development of such examination may enable to bridge gaps and pave a common path, fulfilling and realising a vision of a world without walls.