Introduction

Over the past decade, literature on the varieties of capitalism (VoC) has proliferated rapidly after the path-breaking work of Peter Hall and David Soskice (2001). This promising approach has been deployed extensively for the study of a wide range of issues. It is all the more appealing for a comparative study of comparative efficiency. In this context, it is no coincidence that the literature has concentrated on the study of advanced capitalism pertaining to Europe and North America. Given its short span of life, it is not yet certain if the VoC approach will continue to spread in numbers as well as in geographical application. There exist two favorable circumstances for its further growth: (1) the eminence of heterodox economic approaches that see in diversity a precondition for economic evolution in the wake of the current crisis of neoliberalism pace globalization, (2) the differential advent of countries that participate in the European integration where convergence and fine-tuning of economic policies take place against a backdrop of variegated institutional matrices. On the other side, the approach may well lead to a cul-de-sac where repeated pursuit of comparative statics may exhaust the potential of the approach.

The basic aim of this paper is to take a tour de force in order to put the VoC approach in perspective and to assess its limits and further prospects. There existed before it a certain
stages of capitalism (SoC) approach with a long history. The SoC approach developed largely under the influence of social and anthropological stage theories of progress and of Marxism. Accordingly, capitalism as a mode of production was perceived as progressing through commercial, industrial, and financial stage. Whereas the last was identified as the highest stage corresponding to the eve of the First World War, the middle stage was identified with the European industrialization of the nineteenth century, and the first with the 16-18th century. As a matter of fact, the VoC approach has been erected on the foundations of, and in response to, the SoC approach even though the link seems to have been lost to many a scholar. In this paper, this link will be recovered for the benefit of further scholarship. We emphasize that the VoC approach, by the weight it puts on efficiency tends to rank circumstantially the variety at issue, thereby implying occasionally a desirable move towards the more efficient form. This means that the elements forming a given variety may actually be matched with the successive stages of a certain progress.

**Stages-of-Capitalism Approach Revisited**

Stages-of-capitalism approach is founded on the heritage of centuries-long refinement in post-Renaissance philosophies of history that were given a strong turn by the theories of progress characteristic of the Enlightenment. Continental philosophies circa the French Revolution were increasingly committed to the idea of social and historical progress. Because the French Revolution was identified with progress, it necessitated in the minds of many the characterization of the eras before and after it as “stages”. These stages were originally far from being conceived in any relation to either the phenomenon or the after-the-fact concept of capitalism. If anything, social philosophers beginning with Claude Henri de Rouvroy Comte
de Saint-Simon and Auguste Comte were attracted to the idea of an industrial process associated with rapid growth of output and productivity and explored whether the progress under way could be given a further impetus for the better by human design.\textsuperscript{1} With the magic touch of Karl Marx and the advent of Marxism in the twentieth century, SoC approach came to dominate the scene at the expense of other rival stage theories. This was especially so after the cultural revolt of 1968 that also brought fresh air to the social sciences and humanities. However, we should bear in mind that this was a very special moment in history and forms rather the exception than the rule. Otherwise, if we take into consideration the ontological foundations and properties, SoC approach remains to this day a subset of the stage theories of social and historical progress. Though being the exception to the rule, SoC approach has had a brief but influential career with a lasting influence on the social sciences. This is why we find it worthy of a revisit with an eye to lessons that can be drawn from its experience.

The periodization of history was mainly based on the names of the empires or the dynasties before the French Revolution. After the 1789 Revolution, scholars were obliged to adopt a more scientific approach that accorded well with a history of the masses that progressed according to its own laws of motion. The foundation was laid with Saint-Simon and Comte’s industry-based societies approach. It was further developed by Marx. Marx’s version elaborated a production- and distribution analysis of the economy that shaped society

\textsuperscript{1} Comte, like his mentor Saint-Simon, tried to combine scientific practice and philosophy with the individualistic analysis of society. He tried to come up with a solution to the tribulations of French society after the Revolution of 1789 that destroyed traditional sources of authority. According to Comte, France had passed the theological phase of law of three stages and was then in the metaphysical phase, a period when the investigation of the nature of the universe reigned supreme. This stage was characterized by the inevitable questioning of religion and authority. Once accomplished, French society would pass to the positive phase that would be fully scientific. This was one of the first social evolution theories that also made him the father of an all-inclusive sociology. Saint-Simon and Comte also investigated the industrial system and explored the phenomenon of productivity increase in the factory system with their main work, Du système industriel (1820). They claimed that production and distribution should be subject to central planning that could be extended to whole society. The next stage should be an industrial society in which even politics should be conceived as a science of production (Tribe, 2008).
in turn. Once society was conceived as an effect of production at large, Marx could easily take the further step by deploying the concept of “mode of production” as a combination of the forces and relations of production as the foundational matrix of society.

Marx was first and foremost interested in the study of what later came to be known as capitalism. In order to understand capitalism better, he delved into its origins and thereby hit upon the pre-capitalist modes of production. From his work emerges a list of modes of production such as primitive communism, slavery, feudalism, capitalism, socialism, communism; and the most controversial so-called Asiatic modes of production.  The ordering among the pre-capitalist modes remains ambiguous and debatable. Among all, feudalism remains the best studied mode of production. It is no surprise that feudalism is also periodized from within: “it is periodized into successive stages according to increasing privatization of the form taken by the relations of production(toward private property) and the increased socialization of the form taken by distribution (commodity exchange)” (Fine and Harris, 1979; 109). These are labor rent, rent in kind, and money rent stages. This periodization is based on the legalization of the rent in question. With the advent of money rent; the spread of market came to affect economic relations irreversibly. By the way, transformation of each one to the next came together with new social relations, a new type of class struggle based on demands for greater economic freedom. Whereas Marx had a notion of distinct stages that correlated with successive modes of production, Marxists elaborated the idea of stages within the specific modes of production. Marx was interested in the nature of the transition from feudalism to capitalism and from capitalism to socialism.

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2 This concept is based on a specific interpretation of the ‘facts’ of Chinese and Indian history. The difference from the feudal mode of production is due to absence of private property and the likely presence of a strong, in fact, allegedly despotic state. Whether Chinese and Indian economies ought to be identified as ‘feudal’ or ‘Asiatic’ has remained a contended issue further politicized by the advent of real socialism (Krader, 1975; Hindess and Hirst, 1977).
In sharp contrast to Marx’s own expectations, as capitalism metamorphosed and matured well into the twentieth century, Marxists were forced to adopt a narrower focus and concentrate further on its internal periodization. Among the many such periodizations, we can remind ourselves of (1) Rudolph Hilferding’s (1977) stages of free trade, monopoly and finance capitalism; (2) in contradistinction, the more political formulation in terms of early capitalism, colonialism and imperialism by V. I. Lenin (1996) and John A. Hobson (1965) need to be noted; (3) Paul Sweezy’s (1970) stages of early capitalism “competitive capitalism”, “monopoly capitalism” and “state monopoly capitalism”. In a similar vein, Ben Fine and Lawrence Harris (1979) list laissez-faire, monopoly and state monopoly capitalism. There exist numerous further variations to this theme of characterizing the stages. Call them what you will, the mapping of stages to chronological history reveals that they more or less overlap. The first stage is generally dated as between the 16th and 18th century of Europe. It is the stage of primitive or commercial capitalism. By the increase of the division of labor, productivity increased and so did production and surplus. It was however in the next stage called industrial capitalism coincident with the first three quarters of the nineteenth century, that machines would start to replace workers in the factories while labor-markets were constituted in an ever growing scale. As of the last quarter of the nineteenth century, monopolistic or oligopolistic firms spread under the encouragement of the state in both the national and the international arenas. Material expansion of the industrial phase was ultimately followed by a financial expansion as of the turn of the century known as the Belle Époque.

Whereas production is space-specific, finance is the opposite, it is flow-specific. Given this sharp contrast whereas industrial capitalism was conceived vis-à-vis the territoriality of the nation-state, financial capitalism has been conceptualized as essentially
transgressive of national boundaries, that is, as potentially globalizing. This enlargement of the field-of-vision requires a new conception of stages with an acute awareness of their worldwide significance. A theory derived from the European experience thus comes to be reworked with reference to the world at large. Most important is the status of the rest of the world as “developing” or “underdeveloped” in this context. Marxists committed strongly to the stages-approach argued that the Third World countries had to follow the same stages in order to reach socialism in the end. Against the above backdrop two debates of broader relevance developed. The first concerned the question of whether or not capitalism was essential en route from pre-capitalism to socialism. More specifically this meant if industrial capitalism could be skipped as a stage. As far as definition is concerned, if a stage can be skipped, it can no longer be conceived as a stage, as it is redundant. The second question concerned the nature of transition. Does transition from one stage to the next come about as a result of internal dynamics or is it initiated by external factors? The two questions are obviously linked in one sense. The more each stage is defined as more “essential” the less likely that it would generate on its own a transition from within. It is for this reason that as more elaborated modes of production became less receptive to a dynamics, the concept of “social formation” as consisting of the articulation of two or more modes of production was elaborated. As such, social formations bore the responsibility for accounting for transitions where the mode of production failed. This has one further theoretical implication. Stages are no longer conceived as successive as would befit their definition, but as coexistent. If modes of production coexist in a social formation, then they cannot be seen as necessary stages. It is no coincidence that historicism yields to structuralism with the popularity of the idea of social formations as the building blocks of large-scale, long-term analysis. There exists yet the

3 With specific reference to the less-developed countries this would mean if interaction with a developed country was beneficial or harmful. Ultimately, concepts such as “dependent development” elaborated in conjunction with Brazil for example assume a beneficial contact with international capital (Evans, 1979).
possibility on another inference. If some modes of production exist side by side, then we can speak not of a uniformity and singularity, but *variety* of modes of production at any given point in time. Hereby variety is recognized.

Within the international arena, Third World countries attracted much attention in the postwar period. International bipolarity encouraged both the First and the Second World to compete for influence over the Third World. This competition stimulated an academic interest in the economic development of postcolonial countries. Walt Whitman Rostow’s five staged take-off model, tailored as the antithesis of the *Communist Manifesto* as obvious from its subtitle, thus became the mainstream classic in this field. The stages begin with traditional society with a ceiling in agriculture based non-scientific production, and reach to the high mass-consumption stage that the societies allocate the increased resources to social welfare and security (Rostow, 1960). Of critical importance are the preconditions of the take-off:

> The more general case in modern history, however, saw the stage of preconditions arise not endogenously but from some external intrusion by more advanced societies. These invasions-literal or figurative-shocked the traditional society and began or hastened its undoing; but they also set in motion ideas and sentiments which initiated the process by which a modern alternative to the traditional society was constructed out of the old culture. (Rostow, 1960:6)

Rostow gives each stage a duration characterized by investments and growth-rates that need to be achieved. It should be noted that industrial production and not finance is the main concern in the characterization of these stages. Finally, maturity equated with a modern technological welfare state will ultimately be attained after a period of fifty to hundred years.4

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4 Rostow’s work paved the way for further elaboration of stage theories the scope of which was not restricted to the Third World per se. Among these we identify Fritz Machlup’s work (1962) based on information concentrated on production; Daniel Bell’s (1973) post industrial society concept and James Benniger’s (1986) information society. Finally, with the development of trade, advertisement and communication on the internet, Manuel Castell’s (1996) network society specified the next step of these stage analyses. These approaches are based on a common set of assumptions. Today, industrial production is spread over the greater part of the world and no longer serves to demarcate the developed few. In its place, concern with information serves this purpose. The West now produces mainly the information which is more skilled-based. This is reflected at the R&G expenditures, patents and innovations. Now the assembly-line part is the easiest and less profitable part in contrast with the designing, advertisement and marketing sectors. Also the web and the software sector is the most intriguing and continuously expanding sector which has nearly no need of physical investment except that
For such stage theories, dating the transitions become the most controversial issue. At a national level, validation of the periodization is always possible with plausible justification. By the date of an event, by a revolution, by an invention or by a legal act, the stages can be initiated. Since we are concerned here with an ex post specification, transition becomes a nonissue since it is impossible to claim that it did not happen. However, when we attempt to formulate a general theory of economic development by starting with an exemplary case, predictions for future cases can be misleading.

The so-called Dobb-Sweezy Debate is the penultimate case in the broader transition debates. It teaches us more with its shortcomings than with what it has actually accomplished. Its objective has been to account for the transition from feudalism to capitalism. On the one side there is Maurice Dobb working with the mode of production concept with his focus on English history. On the other side, there is Paul Sweezy who pays greater tribute to the broader context of Europe with a depth of focus that takes historical factors into account. Sweezy emphasizes external factors such as long-distance trade that help dissolve feudalism by its impact through the towns on the countryside whereas Dobb dwells on internal factors to do with agrarian capitalism as later picked up by the subsequent Brenner Debate (Aston & Philpin, 1987). Internal factors are internal to the national mode of production as a unit of analysis. External factors are external with respect to the same. However, they can well be internal to a different, more encompassing unit of analysis such as a world-system. Dobb acknowledged that Italy and Eastern Europe still remained a problem for the debates on transition (Dobb, 1978) just as Maurice Aymard (1982) described Italy as the case that did not fit insofar as it hosted all the prerequisites yet failed to accomplish the transition. The implication is clear. Perhaps we should be concerned not with a transition from one mode of a single computer, yet bring super profits in the short run. Considering these, scholars suppose that the next stage will be the information age, where people will not produce commodities but information.
production to another at the national scale but with a different systemic genesis of capitalism as a world-system pace Immanuel Wallerstein (1974).

Let us recall at this point that the ancestor of world-systems analysis had been the Latin American Dependency School. Dependency theories argue that there should be another—than mainstream modernization—explanation of the economic development of the periphery. Accordingly, development in the periphery is structurally limited and distorted. In fact, one can speak of the development of underdevelopment vis-à-vis the periphery as the counterpart of the development experienced in the core. This is so because there is always expropriation of the surplus by way of unequal exchange between the core and periphery:

Yet development and underdevelopment are the same in that they are product of a single, but dialectically contradictory, economic structure and process of capitalism. Thus they cannot be viewed as the products of supposedly different economic structures or systems, or of supposed different stages of economic growth achieved in the same system. One and the same historical process of the expansion and development of capitalism throughout the world has simultaneously generated - and continues to generate- both economic development and structural underdevelopment. (Frank, 1969; 9)

According to dependency approach, contemporary underdeveloped countries are not at a stage that developed countries already went through. Their underdevelopment is not the result of their natural autonomous growth, but the effect of their contact with developed countries. What is at issue here is more than an initial contact; in fact, a process of inscription into a division of labor that operates at a world-scale. Moreover, by proceeding further along that path, they increase their dependency on the developed countries, thereby deepening their process of underdevelopment. Dependency theory and its offshoot world-systems analysis thus reject the linear, staged development. They see peripheral development as an oxymoron within the context of the world system. On the other side, among those who do not necessarily contest altogether the stages-approach, there exist a debate over the nature and limits of

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5 Laclau mocked Frank by insisting that his broad conception of capitalism would lead us to think that even the Neolithic period is capitalist (Laclau, 1979). As such, Laclau represented the orthodox mode of production/social formation pole of the debate according to which Latin American capitalism was thus normalized.
replicating at present the past developmental experience of advanced countries. All this amounts to saying that peripheral capitalism is essentially, that is, structurally different. Some argue that, by recourse to right policies, it can be transformed into core capitalism while others insist this is impossible. Thus, varieties-of-capitalism approach was first born in this context. Then only two options existed and debate ensued as to whether the peripheral one would be merely transitional or not. We can rephrase this issue in retrospect as to whether peripheral capitalism was flexible enough to become normal capitalism identified with the core.

There had existed for long another criticism of the uniformity of capitalism approach from within Marxism. We have in mind here Rosa Luxemburg (1951). She argued that capital accumulation in a closed system is not feasible. She thus defected from both orthodox Marxist and mainstream commitments to a closed-system analysis. She insisted that capitalism required for its expanded reproduction the presence of non-capitalist elements as potential consumers. It was thus necessary that a country remains either totally or in part untouched by the capitalist system (Sweezy, 1970; 203). Once all such entities are inevitably absorbed by the system, the impossibility of further capital accumulation will be faced. The result is that if every part of the world with their entire population were absorbed into the system, the whole system will be closed and would collapse. Put differently, this means capitalism can not exist in purity. It needs variety of economic systems in its neighborhood to survive. Capitalism thus has to be embedded in economic variety. This is indeed a strong argument in favor of variety.

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6 One such objection comes from Ha-Joon Chang. He believes in the possibility of achieving national development within this system but insists that it cannot be achieved by mainstream recipes. The main problem is that developed countries do not allow undeveloped nations to use policies that they once used. They recommend to the undeveloped countries free market policies that they used only after interventionist protectionist policies succeeded (Chang, 2002).
Varieties-of-Capitalism Approach Visited

Varieties-of-capitalism approach emerged with the publication of *Varieties of Capitalism: The Institutional Foundations of Comparative Advantage* by Hall and Soskice in 2001. The book stirred much controversy, exerted influence on the literature and resulted in a debate. As such, this approach together with the ensuing debate is still less than a decade old and is still at a most dynamic phase. Nevertheless, main attributes of the VoC stance have crystallized sufficiently to qualify for a critical assessment. The Introduction to this groundbreaking text states that the approach is “seen as an effort to go beyond the three perspectives on institutional variation that have dominated the study of comparative capitalism in the preceding thirty years”, namely, modernization approach, neo-corporatism, and social systems of production (Hall and Soskice, 2001). Accordingly, modernization approach tended to overstate what governments can accomplish; neo-corporatism mostly focused on trade union movement and overlooked the importance of firms in political economy; and despite the recognition of the role of regional and sectoral institutions on firm behavior, social systems of production approach has not analyzed variations across national political economies. Moreover, in each of these perspectives the elaboration of institutions, especially their effects on behavior, has remained rather limited, and these approaches have failed to capture strategic interactions which are vital for economic and political outcomes. It is precisely at this juncture that the co-authors part ways “most fundamentally from these approaches” and opt instead to an analysis akin to that of Aoki (1994), especially with an emphasis on “institutional complementarities” (Hall and Soskice, 2001: 4, 17).
VoC is a firm-centered approach to political economy\(^7\)—as firms are seen as “the key agents of adjustment in the face of technological change or international competition whose activities aggregate into overall levels of economic performance” (Hall and Soskice, 2991: 6), in which the main objective of firms is to attain *core competencies* or *dynamic capabilities* to develop, produce, and distribute goods and services profitably. The co-authors see firm as an institution-taker in general *pace* Douglas North, and strategy follows from institutions. Thereafter, the key relationships in political economy are interpreted in game-theoretic terms. VoC approach states that firms engage in *strategic interactions* to reduce their coordination problems in the economy. Five main categories are picked up as the domain of such problems. These are *industrial relations*, *vocational training and education*, *corporate governance*, *inter-firm relations*, and *employees*. Thereafter, the approach insists, “national political economies can be compared by reference to the way in which firms resolve the coordination problems they face in these five spheres” (Hall and Soskice, 2001: 8). As Watson (2003) mentions, this approach “offers much in its ability to move us beyond the tendential reification of ‘the international’ as a discrete spatial scale of economic activity” and “reminds us that there are particular geographies of production and consumption, which represent embodied networks of economic activity that are limited both socially and spatially” (Watson, 2003: 228); and, as a result of the varieties in institutional context across countries; that is, the role of culture, informal rules, and history; combined with the effects of *institutional complementarities*, we are faced with *varieties of capitalism* instead of witnessing only *one-type-of-capitalism* to which all of the developed nations must conveniently fit.

But what exactly is the variety that is being covered by this approach? Although VoC is ambitious enough to cover also the developing nations, it remains to this day limited to the

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\(^7\) According to Allen (2004), contrary to its suggestions, VoC approach is *structuralist* (not actor-centered) as a logical result of its unstated assumptions like the uniform spread of important institutions across firms within a national economy.
developed nations as Hall and Soskice admit: “we know them best and think the framework applies well to many problems there” (Hall and Soskice, 2001: 2). Having thus practically restricted their scope, the co-authors identify two core types of political economy that are liberal market economies (LMEs) and coordinated market economies (CMEs). These “constitute ideal types at the poles of a spectrum along which many nations can be arrayed” (Hall and Soskice, 2001: 8). By examining the large OECD countries, the writers classify the USA (analyzed as a case study), Britain, Australia, Canada, New Zealand, and Ireland as LMEs; and Germany (analyzed as a case study), Japan, Switzerland, the Netherlands, Belgium, Sweden, Norway, Denmark, Finland, and Austria as CMEs. Although France, Italy, Spain, Portugal, Greece, and Turkey have ambiguous positions, referring to Rhodes (1997), the writers state that some signs of institutional clustering is witnessed in these countries which may justify grouping them under the label of “Mediterranean type of capitalism” (Hall and Soskice, 2001: 21).

Be that as it may, let us briefly identify the major characteristics of LMEs and CMEs. In LMEs, firms generally solve their coordination problems by relying on hierarchies and competitive market arrangements. Neoclassical economics has explanatory power when applied to LMEs (Hall and Soskice, 2001: 8). In CMEs, on the other hand, firms generally solve their coordination problems by relying on non-market modes of coordination, for instance, relational or incomplete contracting, network monitoring based on the exchange of private information inside networks, or greater recourse to collaborative relationships. This specification implies that strategic interactions among firms dominate in CMEs and neoclassical economics is insufficient for them. What is needed instead is a combination of game theory and new institutional economics. In the course of time, the basic distinction

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8 Significant variations can be found within the pure types. Concerning the variations in CMEs, industry-based coordination of the Northern European nations and group-based coordination of Japan and Korea are given as examples (Hall and Soskice, 2001: 34).
between LMEs and CMEs has been much criticized on several grounds (Boyer, 2005; Amable, 2003; Peck and Theodore, 2007) and modified by the VoC scholars. For instance, Hall and Gingerich (2004) add “mid-spectrum” or mixed market economies (MMEs) to the analysis and Hancke et al. (2007) recommend the accommodation of LMEs, CMEs, and MMEs with reference to “interests and coalitions” and “state-economy relationships” (for a detailed literature review; see Rafiqui, 2010). These criticisms take for granted the basic outlook of the VoC approach and seek improvements from within the approach.

Having thus characterized the forms of variety along a bipolar axis and having distinguished between LMEs and CMEs, an important question arises for us: Is one or are some form(s) superior to the other(s)? There are two ways to approach this question. First, the pure types can be compared to each other without focusing on hybrids and the question becomes: Are LMEs or CMEs superior? Second, pure types and hybrids can be compared to each other. The question then becomes: Are the pure types or hybrids superior?

Hall and Soskice (2001) respond to the first question: “although each type of capitalism has its partisans, we are not arguing. . . that one is superior to other” as “both liberal and coordinated market economies seem capable of providing satisfactory levels of long-run economic performance” (Hall and Soskice, 2001: 21). However, depending on their distinguishing institutional frameworks, the two types provide different degrees of success with respect to several criteria. First, in terms of innovation, CMEs tend to be more successful in providing incremental innovation (continuous but small-scale improvements to existing product lines and production processes); whereas LMEs tend to be more successful in providing radical innovation (substantial shifts in production lines, the development of entirely new goods, or major changes to the production process) (Hall and Soskice, 2001: 39-
Second, CMEs tend to be more successful in providing high levels of quality control; which gives its firms advantages over products for which demand is more sensitive to quality rather than price; whereas, LMEs tend to have advantages in products for which demand is highly price-sensitive (Hall and Soskice, 2001: 44). Third, in terms of the speed of technology diffusion, LMEs tend to be quicker than CMEs (Hall and Soskice, 2001: 41). Fourth, in terms of general welfare, LMEs tend to have higher levels of income inequality than CMEs (Hall and Soskice, 2001: 21). Moreover, the latter is more successful in providing high skill, high wage, and high productivity employment.

To elaborate the answer that the VoC approach provides for the second question concerning pure-versus-hybrid forms, we should first define and underline the importance of the concept of institutional complementarities. As defined in Hall and Soskice (2001) “two institutions can said to be complementary if the presence (efficiency) of one increases the returns from (or efficiency of) the other” (Hall and Soskice, 2001: 17). For instance, where systems of corporate governance encourage firms to coordinate and collaborate their activities in spheres of network monitoring, wage setting, and interfirm relations in research and development; high levels of product-market regulation may be complementary as it avoids fierce competition in product markets not to harm coordination and collaboration in these spheres (Soskice 1999); or where financial markets are fluid, policies concerning deregulation of labor markets may be complementary and may result in substantial economic gains (Hall and Gingerich, 2009: 480). Following this logic, several other examples can be given as a number of complementarities of this type exist in a political economy. At this point, the crucial suggestion of the VoC approach is that because the pure types are more successful in providing a coherent institutional setup to their firms, implying that they are capable of exploiting the highest returns from institutional complementarities, “aggregate economic
performance should be better in nations whose institutionalized practices correspond more closely to relatively pure types of LMEs or CMEs i.e., in nations where market or strategic coordination is highly developed in multiple spheres of the political economy” (Hall and Gingerich, 2009: 470) And, having made this suggestion, the approach automatically implies that for hybrids, the pure types should be the ideal targets. Although not examined by Hall and Soskice, some scholars who adhere to VoC approach argue that a “dual convergence” is on the agenda, meaning that “convergence takes place within clusters but not between them” (Howell, 2003).

We know all too well that efficiency considerations of the above type do not automatically generate institutional change. Referring to Thelen (2001), Hall and Soskice (2003) admit that “although efficiency considerations. . . are relevant to institutional change, the latter is ultimately political process driven by many factors and must be analyzed as such” (Hall and Soskice, 2003: 245). Moreover, there exist several catalysts and impediments to deliver institutional change. In order to elaborate the transition/convergence debate of hybrids to the pure types, we should focus on them first. We should emphasize that the transition debate of hybrids to the pure types is mostly concerned with the transition of hybrids to LMEs. Although the starting point of analysis is whether the hybrids will be able to save the day under current conditions or where they will likely converge to, actual discussions mostly focus exclusively on whether the hybrids will converge to LMEs; and if so, why, and if not, why not.

The main focus of the literature concerning convergence debate is the convergence of CMEs to LMEs instead of convergence of hybrids to the pure types. Mainstream economics

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9 By focusing on the hybrid success of Denmark during 1990s and pointing out the continuance of its hybrid form in an intensified fashion; Campbell and Pedersen (2007) object to this suggestion.
argue in general that there exists a “best practice” to which all of the political economies tend to converge. VoC approach, on the other hand, argues that there exist two “best practices” (LME and CME) to which hybrids tend to converge when liberated from the pressure of the political process. As the elaboration of hybrids become meaningless unless the impediments to the foreseen convergence of CMEs to LMEs are provided in the first instance; and as the arguments for the convergence of CMEs to LMEs encompass the convergence of hybrids to the pure types; in order to be able to capture the core arguments of the debate, we prefer to focus on the former. Therefore, in order to pursue the transition-debate further, we will now focus on the actually-existing convergence debate; the convergence of CMEs to LMEs, by focusing on the catalysts and impediments of such a transition.

The first and foremost catalyst of the convergence of CMEs to LMEs is the pressure of globalization. As elaborated in Hall and Soskice (2001) this argument evolves around three suggestions (Hall and Soskice, 2001: 55-6). First, in terms of basic structure and strategy, firms are seen as very similar across nations. Second, the competitiveness of firms are measured relying on their labor costs and if firms get a chance to reduce the costs by shifting their production abroad, they will take it. Third, in order to avoid firm exit from the economy, governments will implement several “firm-friendly” policies--such as lowering domestic labor costs or reducing tax rates—and the only possible resistance that will come from labor will be undermined as international interdependence will favor capital by providing it more exit opportunities than for labor. Thus, after a transition period, where the forces of globalization will be unleashed in line with the above scenario, theorists anticipate that CMEs will eventually converge to LMEs.
The second catalyst which is directly related with the first one is the altered structure of the market for corporate governance caused by globalization (Hall and Soskice, 2001: 60). In an environment where internalization of finance takes place—there is a substantial increase in the international flows of capital both in terms of direct and portfolio investment—firms of CMEs need to restructure their traditional practices in order to attract foreign investors and to increase their shares in the world market. In line with the demands of these investors such as the opportunity to monitor the progress of a company closely, insistence on a transparent balance-sheet criteria, or to have a chance to engage in merger or acquisition activity like in LMEs, firms of CMEs will have to take reactive steps to “resemble” their LMEs counterparts, such as revising their accounting standards or appointing independent directors. More importantly, as a direct implication of this kind of “resemblance”, firms of CMEs will have to consider the rate of return of their capital or their share price; a factor not much considered previously. Keeping in mind the argument of institutional complementarities, these developments may alter the other relevant institutions across the political economy and the disturbance may eventually lead to further convergence. To be more concrete, referring to Aoki (1994), Hall and Soskice (2001) argue that, “if the financial markets of a CME are deregulated... it may become more difficult for firms to offer long-term employment. That could make it harder for them to recruit skilled labor or sustain worker loyalty, ultimately inspiring major changes in production regimes” (Hall and Soskice, 2001: 64) In addition, there might be additional catalysts depending on unique circumstances of countries such as in France. In his article where he put the VoC approach in historical perspective and analyzed the nature of institutional change caused by external shocks, Hall (2007: 54-6) noted that, in order to cope with the problems of 1970s, France went through major transformations in its political economy. Having inherited the main properties of a CME, several steps were undertaken to become a LME. The resulting success was due to the special role of the state in
the economy as much of the strategic coordination existed up to that time was led by it. As a result of this, when government decided to reduce its coordination role in the economy, it was able to end up with success and undertake the targeted transformation. Moreover, the industrial weakness of the union movement coupled with the unemployment of 1980s contributed to this success as well.

The counterarguments of Hall and Soskice (2001) developed against the convergence scenario help us identify the core elements of the impediments of transition. First, the suggestion that firms across nations are similar is inadequate. Relying on the different institutional characteristics of LMEs and CMEs, firms of each type will engage in different strategic interactions as to benefit most from the institutions they face and the result will accordingly be “firms in different types of economies react differently to similar changes” (Hall and Soskice, 2001: 56; by referring to Knetter, 1989). Second, although low labor-costs are always attractive to firms, it does not necessarily result in the relocation of their production abroad, as what is more important than low costs of labor is the favorability of the institutional setup. In short, the existing institutional structure of CMEs is the most important impediment to convergence towards LMEs. Faced with the pressures of globalization, the pure types will tend to develop different policies in order not to damage the coherence of their institutional setup, by relying on which their firms organize their activities in turn (Hall and Soskice, 2001: 57-9). To this effect, several concrete examples can be found in Hall. For instance, concerning the responses of Britain, Germany, Sweden, and France to the crisis of the 1970s, the writer states that “VoC are often resilient in the face of socio-economic challenges. In three of these four cases [France is the exception which we elaborated above], firms turned to the modes of coordination they had long used to adjust to the challenge, and governments did not radically alter the institutional framework of the political economy”
(Hall, 2007: 62); or while focusing on the response of Britain to cope with the inflationary pressures of the late 1960s, the writer mentions its failure when it attempted to develop institutions relying on strategic wage coordination like in CMEs, and stress the difficulty of a transformation of a LME to a CME (Hall, 2007: 53). The major impediment in that particular example was the structure of the British labor force.

Having thus discussed the transition/convergence debate of the various types, we ought now to address the ultimate question of whether variety is truly seen as desirable for the VoC approach. In light of our reading of the literature, notwithstanding the pure types, variety is not really “desirable” in the VoC approach, in the sense that hybrids are not seen as efficient as their pure counterparts. To be sure, for an approach which attributes institutions a crucial role in its analysis but defines them in a narrow sense and takes them into account only when they alter the “rules of the game” and affect the “rational” behavior of firms in game-theoretic terms, efficiency considerations are all important. As we stated, the major obstacle for the transition from hybrids to the pure types is attributed to political factors (Hall and Soskice, 2003: 245). Thus, if only economists had a chance to remove these obstacles in order to benefit most from the fruits of efficiency, they would certainly do that. Moreover, not surprisingly, we have not so far come across a single statement in the existing VoC literature that genuinely appreciates the existence of variety. As stated by Hall and Soskice (2003: 248), the VoC approach is not interested in explaining the origins of institutions as institutional construction is seen by the co-authors as a political project.

The VoC approach suffers from a number of additional inherent weaknesses. It focuses only on the postwar experience of the developed nations. By so doing, it takes capitalism as given. Within such a limited domain, when the rules of rationality and efficiency
are set in motion as the determinant of outcomes, then the value and desirability of variety inevitably vanishes from the scene. Besides other lesser reasons\(^{10}\), this is why we need a more comprehensive approach in its place. An approach that has explanatory power when other types of economic systems are also taken into consideration besides “capitalism” has much more to offer us especially when the time horizon is extended. When liberated from the “divine” conceptions of rationality and efficiency, such an approach will also enlarge the role attributed to institutions. We ought to be more concerned about varieties of economic systems instead of varieties of capitalism in order to further our understanding of the institutional nature of political economic change.

**Lessons and Prospects**

The better examples of the critique of the SoC approach are found in the now-classic works of Karl Polanyi and Fernand Braudel which inform our position here. The first blow to SoC approach came from within economic history with the scholarly discovery of a ‘financial revolution’ on the eve of British industrialization that disrupted the expected sequence of progress (Braudel, 1984: 373-79). The second blow was due to the recognition of the actually ‘industrial’ and ‘capitalist’ nature of plantation economies that characterized the first stage that was allegedly commercial. As Braudel put it, plantations were “capitalist creations par excellence” (Braudel: 1982: 272). It is no coincidence that developments in economic history mobilized a theoretical revisionism against the SoC approach. How the SoC approach undermined itself by way of further elaboration and cultivated a heresy is best witnessed in

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\(^{10}\) VoC approach is criticized by several scholars on several grounds. For instance, Howell (2003) states that the approach underrates the role of state and labor in political economy; Watson (2003) criticizes the application of Ricardian themes—specialization, trade and comparative advantage—to the analyses; and, Rafiqui (2010) argues that in line with the suggestions of economic geography, the approach should also take variety within nations into account.
Umberto Melotti’s long-forgotten book, *Marx and the Third World* (1977) that depicted graphically the labyrinthine paths of transition allegedly wide open to a social formation:

Had it not been for the global nature of capitalism, we would have been lost in the above labyrinth. Fortunately, we should remind ourselves that the SoC approach, as it spread in scale and scope, had already attained a world-system character via the dependency approach. As history moved ahead, so did the scale and scope of capitalism, so as to impose a certain uniformity on the world. This most mature form nevertheless moved beyond the original uniformity and emphasized instead a duality counterpoising core and periphery. Already at this point, (a two-element) variety was rediscovered after a long route.  

11 As a matter of fact, the idea of a variety as a condition of existence for capitalism was already contained in Luxemburg’s nonmainstream Marxism. In retrospect, we identify that the interaction of the capitalist and non-capitalist elements as complementary of one another in Luxemburg’s approach contain the seeds of the “institutional complementarity” so dear to advocates of the VoC approach.
SoC departed from the premise of a uniform notion of capitalism only to discover by default that this was not so. The further enrichment of this variety had to await the VoC approach. As focus shifted from the whole to its increasingly minute parts, variety proliferated. Yet this came at a heavy price; that is, the long-view, and the macro dynamics of the historical trajectory were lost. It is no coincidence that the VoC approach performs best in the study of small-scale, short-term quasi-static comparisons. This is also why unquestioningly coming under the influence of the winds of globalization, VoC approach has been tempted to see transition from one particular variety to another as more likely or desirable. This means tracing the reverse path to that of SoC approach as it sets out to elaborate the implications of variety only to rediscover en route uniformity by default. In order to perform equally well at the larger-scale, longer-term domain, VoC approach needs to be reinvested with some of the lessons of the SoC approach as well as drawing upon the heritage of a critique of the SoC approach based upon the works of Karl Polanyi and Fernand Braudel.

The VoC approach has centered its attention on the firm as the most important single institution responsible for the characterization of the varieties of capitalism. Just as the SoC approach was based on the primacy of production as best represented by the factory, VoC approach tries to generalize by starting off from the firm as the representative institution of capitalism. This may be a better choice, but one lesson of the SoC approach was the highly misleading association of modes of production with ideal sites of production such as the factory and the manor.

One major problem with SoC approach was that it was based on a standardized notion of capitalism the comparable counterparts of which were sought in history as a limited number of modes of production. As the number of modes of production increased, transition
became less and less likely and the necessary stages all the more disputable. Ultimately, refuge to the idea of a social formation as consisting of co-existent modes of production made transition all the less comprehensible. In contrast, VoC approach started with identifying forms of capitalism as manifest in actual contexts. This meant externalizing capitalism under the rubric of the “globalization” thrust. In this way, we are sent back to Sweezy’s conception of transition as largely the result of exogenous factors. It is ironical that an approach that tries to emphasize the capitalist nature of variety succumbs to a position that actually externalizes the operation of capitalist dynamics on a grand scale. The Achilles’ heel of the VoC approach is that it confuses the essence and form of capitalism and loses sight of the fact that there is one only capitalism that takes different forms depending on the historical and institutional contexts in which it manifests itself. In his dual critique of the mainstream conception of capitalism and stages, Braudel made this clear:

Let me emphasize the quality that seems to me to be an essential feature of the general history of capitalism: its unlimited flexibility, its capacity for change and adaption. If there is, as I believe, a certain unity in capitalism, from thirteenth-century Italy to the present-day West, it is here above all that such unity must be located and observed. With only a few modifications, one could apply to the history of capitalism in its entirety the words of an American historian writings about his own country, ‘whose history in the last century proves that the capitalist class has always been able to direct and control change in such a way as to preserve its hegemony’. On a world scale, we should avoid the over-simple image often presented of capitalism passing through various stages of growth, from trade to finance to industry – with the ‘mature’ industrial phase, as in the so-called industrial phase (and both terms cover a multitude of forms) the essential characteristic of capitalism was its capacity to slip at a moment’s notice from one form or sector to another, in times of crisis or of pronounced decline in profit rates. (Braudel, 1982: 433)

Without this notion of an all-encompassing capitalist dynamics, we are left in the obscure with the ambiguous notion of varieties of capitalism. The limits of the perspective become all the more clear when cases like contemporary China that cannot conveniently be classified as capitalist force themselves upon us (Arrighi, 2007: 24). In order to comprehend this case, we need to approach with a broader perspective that tolerates variety not only within but also beyond capitalism. It may well be that even if there is a convergence trend among European
and North American cases, this may not be reflective of a global reality; that is, variety might simultaneously be forcefully being reproduced at a global level.

Be that as it may, a more inclusive varieties approach would further require that we move beyond the singular myopic focus on capitalism and distinguish instead between market and capitalism *pace* Braudel.\(^\text{12}\) Yet once this distinction is made, we cannot content ourselves with the tools derived from the analysis of market economies be they of the neoclassical or new institutional kind. This brings us to the scheme of analysis by recourse to the concepts of reciprocity, redistribution and exchange that Polanyi invited us to elaborate:

Even in regard to the market system itself, the market as the sole frame of reference is somewhat out of date. Yet, as should be more clearly realized than it sometimes has been in the past, the market cannot be superseded as a general frame of reference unless the social sciences succeed in developing a wider frame of reference to which the market itself is referable. This indeed is our main intellectual task today in the field of economic studies. As we have attempted to show, such a conceptual structure will have to be grounded on the substantive meaning of economic. (Polanyi, 1957: 270)

Polanyi insisted that these forms of integration coexisted in different combinations and in no way implied either stages or progress\(^\text{13}\). This approach rids us of the major shortcomings of the SoC approach as it was originally intended for. However, it also has much to offer in order to lead the VoC approach out of its cul-de-sac into a broader domain that not only tolerates but also welcomes variety as would befit a truly institutionalist approach\(^\text{14}\).

\(^\text{12}\) This distinction is most explicit in Braudel who concentrated his attention on the further specification of both categories. In Polanyi, the same distinction also exists albeit in a disguised form. Polanyi concentrated his investigation on the further analysis of the market system. However his specification of *haute finance* as an institution par excellence of capitalism and as distinct from and external to the market ought not to be overlooked (Polanyi, 1944). In this sense, his framework of analysis is compatible with that of Braudel.

\(^\text{13}\) “In any case, forms of integration do not represent “stages” of development. No sequence in time is implied. Several subordinate forms may be present alongside of the dominant one, which may itself recur after a temporary eclipse.” (Polanyi, 1957: 256)

\(^\text{14}\) “However, while the impurity principle contends that different kinds of subsystem are necessary for the system as a whole to function, it does not specify the particular kind of subsystem nor the precise boundaries between each subsystem and the system as a whole. Indeed, a variety of types of system and subsystem can feasibly be combined. Furthermore, the boundaries between subsystem and dominant system are likely to be highly variable. Significantly, the nature of the combination and the precise boundaries of the demarcation profoundly affect the nature of the specify variety of capitalist system. A corollary of the impurity principle is the contention that an immense variety of forms of any given socio-economic system can exist.” (Hodgson, 2002: 213)
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