"The Long-Term Trajectories of Institutional Change in European Capitalism."

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Abstract:

The article provides a theoretical overview and empirical summary of the contributions to this Special Issue. The Issue makes four contributions to the literature on comparative capitalism. First, its analysis of institutional change adopts a long-term historical perspective that allows us to observe the potentially transformative effects of relatively slow and incremental changes. Second, it examines the linkages between four levels of institutions that regulate the economy – the international, macro (national), meso, and micro. Third, the national case studies compare change and linkages across six core institutional domains. And fourth, the cases show how institutions are shaped by different sets of socio-political compromises.

Key words: varieties of capitalism, institutional change, European integration

1. Introduction

The comparative capitalisms (CC) approach to political economy is concerned with the diversity and change of institutions across countries (Jackson and Deeg, 2008). Institutional diversity is associated with distinct "logics" of economic action that may yield comparative institutional advantages for different types of economic activities. At the same time, institutions are themselves a result of socio-political compromises built on a complex distribution of power among different economic actors and their interactions within existing political institutions. The early CC literature was largely focused on explaining the stability of such institutional arrangements rooted in path dependent political legacies (Pierson, 2000) and institutional complementarities across economic domains (Hall and Soskice, 2001). But the analytical focus of the CC literature has recently shifted toward the attempts to document and explain institutional change in relation to European integration, liberalisation, globalisation and most recently financialisation.

This Special Issue presents case studies of selected European countries and the United States that document and analyse the trajectories of institutional change over the last 30 years—from roughly 1979 to the onset of the current financial crisis around 2008/9. The papers identify critical junctures and key periods in the change of each model, and examine the role of public policy in shaping these changes. The case studies follow a common methodology and approach intended to facilitate a comparative understanding of the patterns and drivers of institutional change, as well as how liberalisation impacts countries in similar and dissimilar ways.

We believe this collection makes four contributions to understanding institutional change in the CC literature. First, the analysis of institutional change adopts a long-term historical perspective that allows us to observe the potentially transformative effects of relatively slow and incremental changes (Streeck and Thelen, 2005). Even the radical liberalisation policies of Britain's Thatcher or America's Reagan years were less coherent and more gradual in their effects than often assumed and unfolded often through unintended consequences across different interdependent policies fields. Second, we examine the linkages between four levels of institutions that regulate the economy: external aspects of *international relations*, the *macro* level of national politics, the *meso* level of state policies and their effects in particular institutional domains, and the *micro* level of how firms and other economic actors cope enact, reproduce, or modify existing institutions (Deeg and Jackson, 2007). Third, all cases compare the changes and linkages across six institutional domains: finance, corporate governance and responsibility, industrial relations, education/skill formation, industrial policy, and the welfare state. Unlike most studies focused on specific domains, this scope provides a uniquely comprehensive analysis of all the key domains that constitute each national political economy. Finally, we highlight how institutions are shaped by different sets of socio-political compromises. Particular attention is given to the role of the state and regulatory policy in the process of institutional change.

2. Dimensions of Institutional Diversity and Change

Comparative studies inevitably depend on a conceptual framework to map and benchmark the diversity of institutions and their change over time. The CC literature lacks agreement on the number of distinct types of capitalisms, the key institutional domains defining such typologies, and the conceptual dimensions used to compare institutions within those domains. Rather, the CC literature offers a number of competing theories about institutional change, the sources of socio-economic dynamism, and the role of politics. This section briefly reviews existing conceptual typologies in the CC literature and summarizes our major findings regarding change in each institutional domain.

2.1. Limits of Existing Typologies

The ‘varieties of capitalism’ (VoC) approach (Hall and Soskice, 2001) has been the most influential strand of the CC literature. This theory identifies two basic types of production regimes (capitalisms): liberal market economies (LME's) and coordinated market economies (CME's) based on the extent of market coordination through investment in transferable assets (LMEs) vs. non-market or strategic coordination through investment in specific assets (CMEs). The degree of coordination is lined to the political strength of producer interests with regime characteristics: political systems that foster decision through consensus favour the policies and institutional stability necessary for asset-specific production strategies found in CMEs. Institutional complementarities in the mode of coordination across different domains also lend stability, coherence and economic efficiency to each model. VoC’s explanatory strength and appeal lie in its parsimony, but the reduction of institutional diversity to a single dimension has also been its liability. The framework misses many differences in how coordination takes place within CME countries and faces trouble accounting for mixed cases lacking institutional complementarities. By subsuming too much diversity under a broad label, VoC have been criticisad for overemphasizing continuity and missing important aspects of institutional change.

Alternative CC frameworks stem from literatures on governance (Crouch and Streeck, 1997, Hollingsworth and Boyer, 1997), national business systems (Whitley, 2007) , or social systems of innovation (Amable, 2003). These frameworks introduce a number of additional dimensions for understanding institutional diversity. For example, the governance approach uses a number of generic coordination mechanisms to describe how economic activity is organised in a particular domain and extends this to understanding national cases in terms of combinations. This framework describes CMEs countries in more rich and complex terms, where coordination takes place in inter-firm networks as in Japan, formal business associations such as sectoral unions and employers' associations as in Germany, or more community based coordinated as in the Third Italy. Other frameworks emphasize the varied role of the state in institutionalisation (Whitley, 2007) and the role of socio-political power relationships and coalitions among unequal actors with divergent interests (Amable 2003, 7-11). Moreover, new 'types' of capitalism emerging in transition economies such as Central and Eastern Europe (CEE) do not fit neatly into existing categories or typologies (Bohle and Greskovits, 2007, Hancké, Rhodes and Thatcher, 2007). CEE countries have been described as "dependent market economies" (DME) (Nölke and Vliegenthart, 2009), whereby institutions have developed in ways very reliant on foreign direct investment and multinational enterprises exploiting relatively cheap labour.

While there are useful studies utilizing a quantitative approach to identify capitalist systems and change, the clustering of institutional variables into cohesive country groups is very sensitive to the institutional domains selected for the analysis and is unstable across different measures (Ahlquist and Breunig, 2009). As a guide to empirical investigation, therefore, this JEPP special issue takes a historical case study approach that draws loosely on Amable's (2003) distinction in Europe among the market-based model, Nordic or social-democratic model, Continental European model, and Mediterranean model. We focus on six institutional domains: finance, corporate governance, industrial relations and labor market institutions, the education and training system, the welfare state, and industrial policy (e.g. product market regulation). Rather than using a common dimension for each domain, we describe each domain in terms of institutional typologies drawn from specific literatures on each domain (Jackson and Deeg, 2006), which are summarized in **Figure 1**. To facilitate comparison, each country case study in the Issue includes a table showing a basic political chronology of significant institutional reforms in each of these domains (Jackson and Wylegala, 2012).

INSERT FIGURE 1 HERE

2.2. Change in What Direction?

Quantitative analyses show that, while there is significant change within numerous institutional domains, there is a remarkable stability of institutional clusters across OECD countries through 2008 (Becue, Bouaroudj, Carrincazeaux and Lung, 2011). In Europe, these clusters conform closely to the market-based, Nordic, Continental and Mediterranean type of capitalism (Amable 2003). In other words, the *relative differences* between the countries included in this volume have largely remained stable across our selected domains. For example, Germany is often seen as a paradigm case of a "coordinated market economy," and strategic coordination remains a remarkably stable feature despite the huge external shock of German unification and other institutional changes in the German model. In short, no overall convergence has taken place toward a single variety of capitalism.

Nonetheless, the contributions to this special issue show how this picture of relative stability hides a larger and more important set of observations about change. In 1979, even liberal market economies such as the UK or USA were far less uniformly liberal and grounded in post-war social compromises of managerial capitalism, pluralistic industrial relations, and state regulation of markets. Both countries underwent a deepening of liberalisation that created new institutional logics based on "financialised" interdependencies between capital markets, corporations, and the household sector (Krippner, 2011). In contrast to the common imagery of the "Thatcher revolution," **Gospel and Edwards** stress the incremental nature of many changes in the UK, which involved policy drift and unexpected interactions across policy fields. **Deeg** also shows that the highly financialised US economy was not a linear process nor an inevitable result of neo-liberal policies, as often presumed, but an emergent feature of how corporations and households redefined their interests over time. Similarly, coordinated market economies have undergone significant change: **Schnyder** documents how the exhaustion of the Swedish model after the 1970s underwent crisis and emergence of new forms of coordination based on a very different institutional logic. The continuity of Swedish institutions is thus closely bound up with how these institutions changed and developed new competitive strengths. **Jackson and Sorge** find Germany maintained many features of its coordinated model, but this model became far less encompassing over time and leading to greater internal diversity in governing institutions. **Amable et al** show how France underwent substantial liberalisation, but successive policies reshaped political coalitions in ways that made changes incremental or partial in their effects. **Rangone and Solari** demonstrate how Italy adapted its model of family and state-enhanced capitalism to a new and very different liberalised market environment in Europe, yet the result is an incoherent and politically intractable set of institutions.

Thus, our case studies point to very substantial institutional transformation. Looking across the cases two common patterns we find are a growing *liberalisation* in relation to the role of the state, and a growing *segmentation* (dualisation) in terms of employment conditions and social protection. These trends create very different sets of challenges and responses within each country in relation to the diverse institutional starting points. In this section, we thus highlight the common aspects to better situate the diversity of the cases in a common narrative framework.

A first trend over the past three decades is <u>liberalisation</u> (Yamamura and Streeck, 2003). While liberalisation is often equated with the withdrawal of state intervention, it is not just about the degree of state involvement but the kind of state intervention.

Liberalisation may be defined "as the politically implemented and politically legitimated delegation of allocation and distribution decisions to markets" (Höpner, Petring and Seikel, 2009). Regulatory liberalisation refers to deregulation and privatisation of public utilities, policies to increase competition among market actors, the strengthening of property rights, as well as the deregulation of labour markets (e.g. employment protection) and financial markets. Distributive liberalisation includes reduction of transfer payments related to pensions, unemployment, subvention, and public spending. Thus far from being a unified phenomenon, our cases show that liberalisation occurs in different ways across institutional domains. Drawing on the contributions to this Special Issue, **Figure 2** presents an overview of empirical findings across six domains.

Financial systems show substantial liberalisation and growth of market-oriented activity with a corresponding weakening of long-term relational forms of bank-industry relationships. The UK and US have historically rather different approaches to financial market regulation, but both have moved toward a more liberal system and seen major developments toward highly "financialised" patterns of growth. Other countries moved to a more complex mix of banks and markets. Sweden liberalised rapidly during the mid-1980s and, despite a banking crisis in 1991, remained on this path. France moved away from state-centred banking and other types of patient capital toward the most market-based system on the Continent. Germany maintains strong relational banking among cooperative and savings banks focused on *Mittelstand* firms, but has also seen a growth in stock market activity and changing strategic orientation of large private banks. Consequently, one can observe a bifurcation of financial arrangements in these countries between the older, bank-based and market-based mechanisms (Deeg, 2009).

Corporate governance reform often came slightly later and partially as a response to financial market liberalisation. The UK was an early mover, where shareholder-oriented corporate governance institutions were developed both through law and self-regulatory codes regarding the structure and duties of boards. Other countries followed with measures to strengthen shareholder rights and deregulate the use of corporate equity. Nonetheless, these policies had a less uniform effect on patterns of ownership and control of large firms. Insider-dominated corporate ownership has persisted in Sweden and Italy alongside a slowly growing influence of foreign institutional investors, whereas a greater dissolution of patient capital took place in France and Germany. Despite the dominance of liberal policies, a unified European market for corporate control has not emerged. Similarly, the role of stakeholders in European corporate governance remains diverse. Employee participation has remained a stable feature in Sweden and Germany, but these policies have not been emulated elsewhere.

Regarding **industrial relations and labour markets**, liberalisation has occurred through the institutional layering and subsequent growth of newer, flexible forms of employment. Despite watershed industrial conflicts of the UK coal miners or US air traffic controllers, the weakening role of unions in liberal countries involved a long-term and slow decline. Even in labour-friendly Sweden the highly centralised system of collective bargaining shifted to a more loosely coordinated pattern by 1990. Thus, many countries saw a gradual decline in the coverage of collective bargaining and shifts toward more decentralised, firm-level forms of bargaining. Meanwhile, employment arrangements outside the core were made much more flexible. For example, the French introduced substantial deregulation of contingent employment in 2005—making it possible for French firms to adopt more dualistic human resource management strategies. To some extent, liberalisation was counterbalanced by new types of state intervention that sought to strengthen the position of core workers in more coordinated countries or compensate for the growing vulnerability of peripheral workers in liberal economies. For example, the UK Labour government of 1997 introduced a National Minimum Wage. In Germany, left governments introduced reforms to facilitate the adaptation of works councils to changing forms of network-based organisation. But as discussed below, these measures fit a larger trend toward greater *segmentation of rights and protections* across the workforce.

Liberalisation was perhaps least uniform in the area of **education and training**. Institutions of collective skill formation represent a stunning variety of coordination modes, which reflect very complex political dynamics (Busemeyer and Trampusch, 2012). Europeanisation has spurred efforts to enhance the comparability and portability of qualifications across Europe, but not via a strict harmonisation of rules. In some ways, states have been increasing their role in provision of remedial and higher education. Also, in the UK, government made efforts to institutionalisation more coordinated forms of training and skill formation, although the effects were rather marginal to the overall context of liberal policies toward employees.

Welfare state reform presents a complex picture and the Special Issue highlights two aspects: social insurance and pensions. Reforms to unemployment insurance and social benefits have led to substantial retrenchment in some countries, and often gone hand-in-hand with liberalisation of labour markets for atypical employment under the rubric of 'flexicurity'. The combined effect of labour market and welfare state policies has been to vastly expand atypical and low wage employment in the service sector, which is also associated with rising levels of inequality (OECD, 2008). Meanwhile, reforms to public pensions have been rather less extensive. Private pension funds have become a common institutional feature, but their role remains relatively marginal in many countries. Across these domains, social protections have not disappeared but become more varied and less uniform. As will be discussed later, these changes also have longer-term destabilizing effects on core social protections.

Industrial policy reforms reflect a broad trend toward more liberalisation of markets in public-relevant sectors of the economy, as well as far reaching efforts of privatisation. While all countries engaged in privatisation and market liberalisation, they did so to different degrees and utilizing different approaches. Liberal countries underwent significant change in this domain as well, but the most regulated economies tended to change more while maintaining some important differences to the US or UK. Countries also differed greatly with regard to whether industrial policies focused on attracting foreign direct investment and maintaining suitable supports for multi-national firms—here Ireland and the CEE countries showed certain similarities. Differences in industrial policy were also shaped by partisan politics. Right wing governments tend to privatise more, whereas left-wing governments engage in more liberalisation (Belloc and Nicita, 2011).

A second common trend across our cases concerns how public policies influence the institutionalised forms of governance among private economic actors (see Thelen, 2009). The case studies support the conclusion that European economies have become both *less coordinated and less solidaristic over time*. However, countries had different starting points and changed to different extents across these dimensions. The dimension of *coordination* is based on the presence of relationship-specific assets rather than liberal forms based on transferable assets. Coordination is often measured in terms of long-term patient capital, the level and coordination of collective bargaining, non-market cooperative arrangements between firms, or the duration of employment relationships (Hall and Gingerich, 2009). In financial systems and corporate governance, for example, liberalisation created new financing alternatives that eroded long-term coordination between firms and patient investors. Regulatory liberalisation had a larger impact in countries, like France and Germany, where the state played a greater role in supporting private coordination through bank-firm and inter-corporate ties. By contrast, informal modes of coordination through families, as in Italy and Sweden, have proven to be surprisingly durable. Meanwhile, coordination generally remains very important in employment relations. Sweden and Germany have preserved coordination in employment relations via collective bargaining and co-determination in core sectors. Similarly, in Italy employment protection remains high, despite loosening of restrictions of non-regular employment and reinforcement of pre-existing dualism. In sum, the uneven unwinding of coordination across domains has resulted in a declining coherence of institutional arrangements. An open question is whether new institutional linkages will generate future complementarities or reinforce political deadlock, as in Italy.

While changes in coordination are significant, even greater shifts have taken place along the dimension of *solidarism* versus *segmentalism* (Höpner, 2007, Swenson, 2002, Thelen, 2009). Solidarism implies universalistic mechanisms for redistribution to weaker market participants, whereas segmentation implies the exclusion of workers from rewards or benefits across industry lines or other groupings. Solidarity can be measured in terms of the coverage of collective bargaining, degree of labour market dualism, public spending in support of household income, and universalistic forms of employment protection. As discussed above, industrial relations underwent incremental change that reinforced existing divisions between labour market insiders and outsiders. In short, core firms retain coordinated relations with their workforces, but the coverage of such institutions has become narrower in scope and thus less solidaristic (Palier and Thelen, 2010). As market pressures have increased through liberalisation, stakeholders often protected existing forms of coordination by reducing their scope and redistributing gains from cooperation across a smaller group of insiders. Thus, coordination faced a subtle form of erosion and reduction to a core group of industries and firms. The resulting shift toward more institutionalised segmentalism has long-term consequences for the socio-political dynamics of different forms of capitalism and the future dynamics of institutional change. These changes have been reinforced by the shift in welfare state arrangements to a dominant 'flexicurity' approach.

An interesting question remains as to development and change in Central and Eastern European countries. Despite obvious differences in the institutional legacies between Western European and CEE economies, we can still analyze the evolution of CEE economies utilizing the institutional dimensions developed in the CC literature. The paper by **Duman and Kurekova** focuses on Hungary and Slovakia, which emerged from their socialist past as relatively advanced and internationally integrated economies. In terms of finance, bank-based finance still dominates but the most distinguishing feature is their high dependence on foreign investment in fixed capital formation, a process encouraged by government policies. A spill-on effect for corporate governance is the large role of multinationals via control over subsidiaries, and the emergence of hvbrid forms of state and foreign ownership among privatised state enterprises. Despite liberalisation reforms, corporate governance remains a de facto insider-oriented affair, and both countries adopted at least a modicum of employee representation at the board-level. Altogether the overall trajectory of finance and corporate governance in these countries shares affinities with more coordinated models of capitalism.

Meanwhile, industrial relations institutions in these cases remain complex and politically contested. Hungarian unions remain more fragmented and politicised along the lines of the Italian model. Meanwhile, Slovakia adopted a more corporatist structure with state support (after 2001) to promote more coordinated and solidaristic collective bargaining. Both countries also legislated workplace representation by independent works councils. Turning to the situation in education and training, the relative involvement of social partners is the opposite—namely, extensive involvement in Hungary contrasts with a more state-centred approach in Slovakia. In sum, Hungary and Slovakia represent the novel mixtures of institutions that prevail in CEE and lack easy categorisation into standard capitalist categories.

3. Socio-Political Dynamics of Institutional Change

What social and political factors can help explain both the growing liberalisation and dualism across countries, but also the non-convergence of many institutions? Our contributors seek answers to these questions using a historical institutional approach that stresses how actors define their interests in relation to institutions, but also change institutions over time through their actions—these processes are ongoing and recursive (Thelen, 1999). Our view of institutions does not assume path dependence but allows that incremental forms of change may also be transformative (Streeck and Thelen, 2005). Institutions may create their own endogenous momentum for change over time, because even institutional persistence requires adaptation (Streeck, 2009). Institutions also reflect broad socio-political compromises about the rules governing the economy. Studying their dynamics implies a complex analysis across different levels of the phenomenon and in this Special Issue we consider four levels —external influence of *international relations* and foreign dependence, the *macro* level of national electoral politics and coalition building, the *meso* level of policies toward particular institutional domains and how these interact with one another, and the *micro* level of how firms and other economic actors enact, reproduce, or modify existing institutions (Deeg and Jackson, 2007).

At the **international level**, national socio-economic models are increasingly open to international influence triggered by the entry of foreign actors (e.g. institutional investors), the exit or relocation of activities (e.g. MNCs) or transnational political processes enforced by non-state forms of authority (Djelic and Sahlin-Andersson, 2006), and inter-state cooperation. Unlike the US or Asia, institutional change in Europe is now deeply intertwined through the dynamic of EU integration where the politics of common rules and standards reduced the diversity of institutions through a wide-ranging liberalisation push. However, the effects of this push across institutional domains and countries are *asymmetric*. The EU has larger influence in the area of financial markets relative to industrial relations or vocational training. Across countries, the liberalisation policies of the EU have had a larger influence on the more coordinated models of capitalism, pushing them toward more rules-based and market-conforming forms of governance. This phenomenon of 'negative integration' has been widely document among EU scholars (Scharpf, 2000). Meanwhile, countries with more coordinated forms of capitalism have been far less successful in exporting social protection at the EU-level. The result has been a declining coherence of policies as policy making is fragmented across a multi-level political regime (Callaghan, 2010).

At the **macro-level**, the role of politics in institutional change defies simple explanation using established CC concepts. In terms of electoral politics, the cases presented in this issue suggest it is very difficult to map the trajectories of reform onto simple left-right political ideologies and coalitions. In particular, the power of left political coalitions seems to have surprisingly little explanatory power in relation to differences in the degree or form of liberalisation across countries. British 'New Labour,' the US Clinton administration, French socialists, and the German Social Democrats promoted reform of social protection and labour rights to changing circumstances, yet also furthered the agenda of financial market liberalisation and policies that solidified dualism in the labour market. This "party paradox" is apparent in a number of distinct policy areas (Cioffi and Höpner, 2006). Meanwhile, the different traditions of centre-right political parties based on more Christian versus liberal approaches may help explain the more incremental nature of liberalisation in countries such as Germany. The overall coherence and complementarities in a given institutional set-up is closely related to the particular socio-political compromise.

Another key variable in the CC literature has been the character of the political system, namely whether it is consensual or majoritarian. Consensual systems are thought to allow greater integration of producer groups in the policy process, shape more lasting types of social compromises between left and right parties, and facilitate more lasting forms of redistributive policies. However, the UK case shows that even in majoritarian regimes, radical shifts in policies often take the character of 'muddling through' where liberalisation is worked out at meso and micro-levels in ways that often involve counter-movements and shifting state action toward market regulation and a residual focus on compensating for market failures. Similarly, the fragmentation of state power played a major role in the competitive deregulation of finance in the USA.

At the **meso-level**, changes across institutional domains are often interconnected. While the stability of socio-economic models is often explained by institutional complementarities, interdependence may also imply that changes in one institution exert pressure to change other, related institutions. One important dynamic across countries has been renegotiating the relationship between more market-oriented forms of finance and corporate governance, on one hand, and social protection in the labour market and through the welfare state, on the other. The US case, for example, shows how financial market liberalisation slowly evolved into financialisation as households became increasingly dependent on private pension funds, these funds in turn promoted shareholder value forms of corporate governance, and even unions redefined their interests in relation to shareholder activism. In other countries, the link between finance and labour played out differently: Sweden has managed to largely maintain the egalitarian and solidaristic nature of its economic system, while solidarism has declined in important ways in Germany. Different types of corporate ownership and control may account for these divergent outcomes. In particular, the Swedish ownership structure has proven to guarantee a higher capacity for coordination and solidarism than the now demised bank-centered ownership networks in Germany. As discussed above, coordinated economies also reshaped the links between welfare states and employment regulations toward a 'flexicurity' approach that helped accommodate financial market pressures on firms, but reinforced segmentation of the labour market.

Finally, at the **micro-level**, institutional change is shaped by how different types of organisations utilise, avoid, or otherwise strategically respond to dominant institutions. These micro processes are important to institutional change where institutions are reinterpreted, contested, or conflicts emerge over institutionalised rules. Institutions may thus undergo slow and often unintended processes of incremental change, rather than through large-scale collapse and replacement of institutions (Streeck and Thelen, 2005). One important way in which liberalisation shapes institutional change is by deinstitutionalizing some organisational forms and encouraging market-driven experimentation and competition with others (Crouch, 2005). Liberalisation thus frequently amplifies differences between large and small firms, due to the different degrees of internationalisation of operations, ownership and finance. More generally, as contributions to this Issue demonstrate, liberalisation is related to rising heterogeneity or internal diversity of organisations within national economies (Lane and Wood, 2009). In the UK, for example, liberalised industrial relations led to more heterogeneous forms of human resource management (HRM) practices and divergence between firms pursuing high performance HRM relative to low road strategies. This growing diversity has played out in a parallel fashion in more coordinated market economies. In Germany market-oriented financing for large firms and bank-oriented finance for SMEs has created bifurcated patterns within the same national model (Deeg, 2009). Similarly, multinational and domestic firms play very different roles and participate in domestic institutions in different ways within CEE countries.

4. The Future of Capitalism is Capitalism, or is it?

Over the last 30 years, European forms of capitalism have moved toward a more liberal but in some ways more variegated set of institutions. Looking across a variety of countries and policy areas over a long period of time, this Special Issue shows both the common trend toward a more liberal form of capitalism but also variations on this overarching theme. Markets themselves create their own dynamics, which have varied effects on firms and other economic actors in historically diverse institutional contexts. A crucial factor in understanding change is examining how actors seek to build complementarities across different institutional domains, either by following coherent strategies across them or seeking to compensate for the deficiencies of one sphere through complementary but different strategies in others.

In this regard, the financial crisis and resulting economic crises after 2008 represent something of a watershed moment where the existing logics and complementarities in different models of capitalism have reached a moment of exhaustion. Further liberalisation of markets is unlikely to restore economic stability. In fact, the continued competitive strength of countries such as Germany or Sweden is strongly linked to the continuity of institutional coordination. Meanwhile, the crisis has exposed the growing tensions within the Italian model and unsustainable nature of financialisation in the US and UK.

The role of the state and public policy has been an important driver of liberalisation. But at the same time, liberalisation itself calls forth political demand to re-embed markets within stable institutional arrangements that provide sufficient levels of collective goods for firms and sustain politically acceptable distributions of economic rewards in society. Unfortunately, our analysis also shows how the political foundations of solidarism within advanced capitalist economies remain weak. The growing economic segmentation that has resulted from liberalisation has fragmented class-based interests between labour market and welfare state insiders and outsiders, as well as institutionalised the interests of finance within government itself (e.g. lobbying, public debt), firms (e.g. financialisation of business activities), and households (e.g. consumer credit, mortgages, pension funds). This situation is further complicated by the multi-level nature of policy making in the EU. While liberal capitalism will prove resilient to the current crisis (Crouch, 2011), continued marketisation stands in ever greater tension with the basic legitimacy of democratic public policy that must deal with its very real economic, social, political and ecological limits. The future of public policy will surely not just be more capitalism.

Figure 1: Domains for Political Reform Chronology

Institutional Domain	**Typology**	**Examples of key areas for political reform**
Financial systems	Bank / market-based / FDI dependent	Stock marketing listing rules; separation of commercial vs. investment bank activities
Corporate governance	Insider / outsider or stakeholder / shareholder	Board independence; executive compensation; share buy-backs; privatisation
Industrial relations	Conflictarian / pluralism / corporatist	Board-level codetermination; works councils; recognition of unions
Education and skill creation	State / association / market / firm-based skill formation	Rules governing apprenticeships
Welfare State	Social democratic / conservative / liberal	Benefit levels and scope; eligibility rules
Industrial Policy	Dirigisme / developmental state / neo-liberal	Product market regulation; subsidies; state ownership

Figure 2 Trajectories of Change across Six Institutional Domains, 1979-2009

	Finance	**Corporate Governance**	**Industrial Relations**	**Education and Training**	**Welfare State**	**Industrial Policy**
UK	Deepening market–orientation	Managerialist → Shareholder-oriented	Pluralism→growing voluntarism	Apprenticeship→Market-based→state-coordinated apprenticeship	Liberal→ some strengthening of provision	Regulated markets→ Privatisation, Deregulated
USA	Deepening market–orientation	Managerialist → Shareholder-oriented	Pluralism→ growing voluntarism	Market-based, fragmented, minimal apprenticeship	Liberal→ toward residual benefits	Regulated markets, technology promotion → Deregulated
Sweden	Bank-based→ both banks and markets	Insider-dominated	Corporatism→ limited segmentation	State-dominated, employer associations largely absent from vocational training system	State-dominated	Regulated markets→Mix of developmentalist and deregulated
France	Bank-oriented → both banks and markets	Managerialist → some elements of shareholder value	Corporatism→ increasing segmentation	State-based	State-dominated→ some retrenchment, residual benefits	Highly-regulated→ Deregulated with active state limited to certain sector-oriented
Germany	Bank-oriented → both banks and markets	Stakeholder-oriented → some elements of shareholder value	Corporatism→ increasing segmentation	Association-based vocational training	Conservative→limited introduction of market elements, some retrenchment	Highly-regulated→ Deregulated
Italy	Bank oriented, state-dominated→ private banks and markets	Insider-dominated	Conflictarian → fragmented	Mixed system	Conservative→retrenchment	Highly regulated, active state → Deregulated

Hungary	Bank-oriented→but also FDI dependent	Insider-dominated	Conflictarian	State/school-based	Weakly privatized pension system, welfare-workfare and state controlled health care	Active state
Slovakia	Bank-oriented→but also FDI dependent	Insider-dominated	Corporatism→ Pluralism	State/school-based	Strongly privatized pension system, welfare-workfare, state regulated healthcare with market elements	From protectionist paternalism → Regulatory state

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