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Introduction: Beyond Varieties of Capitalism

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1.1. INTRODUCTION

The European political economy is facing a host of entirely new challenges, arising from both external forces and internal conflicts and contradictions. These include a novel macroeconomic regime under Economic and Monetary Union (EMU), supranational regulation under the Single Market of economies traditionally dominated by national governments and national champions, the accession to the European Union (EU) of Central and Eastern European nations still struggling with the transition to democratic market capitalism, the impact of globalization (the internationalization of production and finance), and a series of destabilizing domestic, demographic, and economic pressures.

How should we understand these developments and their effects? Recent advances in political economy and the 'varieties of capitalism' (henceforth VoC), school of analysis in particular, have given us new tools for analysing and comparing national political economies. The notions of 'complementarities' and 'system coordination' define the core of the VoC approach. Institutional subsystems (which govern capital, labour, and product markets) shape the evolution of political economies and often mutually reinforce each other. The presence of several 'correctly calibrated' subsystems increases the performance of the system as a whole, while producing specific adjustment paths in response to pressures for change.

But broad economic shifts and shocks may have important consequences for each of these subsystems and for the broader institutional framework that supports them. Thus, in their orthodox interpretations, EMU imposes pressures for adjustment on labour markets, the Single Market Programme frees up product and financial markets, Eastern European enlargement raises questions about the viability of different development models within one economic zone, and high-unemployment levels and pension systems crises demand a rethinking of welfare state priorities. All may disrupt the existing equilibria of national subsystems, generating conflict and contradiction within and between them.

This collection of essays confronts the VoC framework with these shocks and explores its capacity to build research agendas and answer questions related to them. Our aim, in this introduction and in the chapters that follow, is to pay particular attention to four areas in which the VoC approach has proven most vulnerable to criticism. First, through an analysis of the role of political and distributive struggles in generating change and adjustment; this theme runs through all chapters in the volume, but receives particular attention by Hall, Iversen, and Soskice. Second, by reconsidering the nature and function of complementarities in shaping and constraining institutional change, a topic on which Hancké and Herrmann, Thatcher, Goyer, and Börsch all focus. Third, by extending the VoC approach to a broader range of political economies than traditionally receives attention, from Southern Europe (Molina and Rhodes) to Central and Eastern Europe and Russia (Feldmann, Mykhnenko, and King). And fourth, by restoring the role of the state in VoC analysis, not just where that role is most overt (Molina and Rhodes, Mykhnenko, and King) but as an important factor in the construction everywhere of what Hall (this volume) refers to as 'institutional ecologies'.

We undertake our analysis in this introduction in four steps. In Section 1.2, *A 'Critique Raisonneé*, we briefly confront the core VoC arguments with its critics and argue for the importance of retaining the key VoC notions of functional coherence, coordination, and complementarity while also bringing power, politics, and conflict onto centre stage. In Section 1.3, *Interests, Coalitions, and Institutional Frameworks*, we take on several critiques of the VoC approach: that it is static and unable to accommodate conflict, that it ignores the role of the state, and that it is reductionist in focusing on two 'ideal-type' economies (LMEs and CMEs). We respond to those claims by thinking seriously about the role of interests, classes, and coalitions, by 'bringing the state back in', and by extending the typology to mixed-market economies and emerging market economies (MMEs and EMEs), although the latter we view less as a separate 'variety' of capitalism as such than a cluster of countries in transition with only partially formed institutional ecologies. In Section 1.4, *Exogenous Shocks and Domestic Change*, we build on the previous sections and the contributions to this volume and show how different forms of coordination and complementarities condition institutional adjustment in contemporary Europe. Section 1.5 concludes.

1.2. 'VARIETIES OF CAPITALISM'— *A CRITIQUE RAISONNEÉ*

Recent contributions from the VoC school (e.g. Hall and Soskice 2001*a*; Amable 2003) have reinvigorated a long analytical tradition that dates back at least to the work of Alexander Gerschenkron (1962) and Andrew Shonfield (1969) and include more recent landmark publications such as Zysman (1983) and Gourevitch (1986). Like its predecessors, VoC is concerned with the macro-characteristics of national political economies. But one of its most important contributions has been to give micro-foundations to a more general theory of cross-national capitalist organization and adjustment. By placing the firm at the centre of the analysis, and adopting a 'relational view' of its role as an exploiter of the core competencies and capabilities in its environment, VoC demonstrates the links between the competitiveness of the firm and the 'institutional comparative advantage' of national economies.

The architecture of 'comparative advantage' is portrayed in terms of key institutional complementarities—between labour relations and corporate governance, labour relations and the national training system, and corporate governance and inter-firm relations. These relationships determine the degree to which a political economy is, or is not, 'coordinated'. The 'coordinated market economy' (CME) is characterized by non-market relations, collaboration, credible commitments, and the 'deliberative calculation' of firms. The essence of its 'liberal market economy' (LME) antithesis is one of arm's length, competitive relations, formal contracting, and supply-and-demand price signalling (Hall and Soskice 2001*b*; Hall and Gingerich 2004). VoC argues that institutional complementarities deliver different kinds of firm behaviour and investment patterns. In LMEs, fluid labour markets fit well with easy access to stock market capital, producing 'radical-innovator' firms in sectors ranging from biotechnology, semiconductors, software, and advertising to corporate finance. In CMEs, long-term employment strategies, rule-bound behaviour, and the durable ties between firms and banks that underpin patient capital provision predispose firms to 'incremental innovation' in capital goods industries, machine tools, and equipment of all kinds. While the logic of LME dynamics is centred on mobile 'switchable assets' whose value can be realized when diverted to multiple purposes, CME logic derives from 'specific or co-specific assets' whose value depends on the active cooperation of others (Hall and Soskice 2001*b*; Hall and Gingerich 2004).

If the centrality of the firm is one key innovation, contrary to the claims of many of its critics VoC also has a strong understanding of both domestic change in political economies and the impact of exogenous pressures. VoC attributes the persistence of capitalist diversity to 'positive feedbacks', whereby the different logics of LMEs and CMEs create different incentives for economic actors, generating in turn a differential politics of adjustment. As Hall and Gingerich (2004: 32) characterize this process, 'in the face of an exogenous shock threatening returns to existing activities, holders of mobile assets will be tempted to "exit" those activities to seek higher returns elsewhere, while holders of specific assets have higher incentives to exercise "voice" in defence of existing activities'. In LMEs, holders of mobile assets (workers with general skills, investors in fluid capital markets) will seek to make markets still more fluid and accept further deregulatory policies. In CMEs, holders of specific assets (workers with industry-specific skills and investors in co-specific assets) will more often oppose greater market competition and form status quo supporting cross-class coalitions (Hall and Gingerich 2004: 28–9).

This logic of adjustment and diversity is reinforced rather than undermined by globalization (Hall and Soskice 2001*b*; Gourevitch and Hawes 2002). Globalization will often reinforce comparative institutional advantage, for foreign direct investment (FDI) will flow to locations rich in either specific or co-specific assets, depending on investors' sector or firm-specific requirements. CMEs and LMEs will be located at different points in international production chains, again reflecting their respective institutional advantages: high value-added, high skill-dependent, high-productivity production will tend to remain in the core CMEs; lower value-added, lower-skill, price-oriented production will relocate to lower-cost jurisdictions. But the globalization of finance may prove to be more problematic (though not necessarily destructive) for CMEs. International capital flows could disrupt long-standing relations and cross-shareholdings between banks and firms, and bring the notion of 'shareholder value' and demands for higher rates of return into formerly closed and collaborative environments.

While Hall and Soskice (2001*b*: 61–2) imagine that this 'could engender shifts in strategy all the way down to production regimes', this is considered unlikely: rational owners and stakeholders in CMEs will not demand a wholesale adoption of Anglo-American management practices if it would endanger their comparative institutional advantage. Although an economic shock may trigger changes to existing institutions and practices, and may even entail a period of conflict and suboptimal outcomes, a new equilibrium will be induced by the incentives for renewed coordination imparted by existing deliberative institutions (Hall and Soskice 2001*b*: 63–5). Change, therefore, is most likely to be path-dependent, and significant path-shifting or equilibrium-breaking behaviour on the part of actors—producing a fully fledged shift from a CME to an LME, for example—is very unlikely to occur due to the 'general efficiencies' for distinctive political economies created by 'complementarities'. As Hall and Gingerich (2004: 27) put it, 'rates of economic growth should be higher in nations where levels of market coordination or levels of strategic coordination are high across spheres of the political economy but lower in nations where neither type of coordination is well developed or market and strategic coordination are combined'. There is no 'one best way', as in arguments for neoliberal convergence, but 'two', on which middle-spectrum countries (with muddled institutional architectures) may 'divergently converge'.

A salvo of criticism provoked by the Hall–Soskice approach to VoC theory has raised many points of contention:

- that it is too static and focused on permanency and path-dependence, missing important dynamic elements of economic change (Crouch and Farrell 2004; Crouch 2005*a*; Hancké and Goyer 2005; Streeck and Thelen 2005; Jackson and Deeg 2006);
- that it is functionalist (Howell 2003; Allen 2004; Boyer 2005*a*);
- that it ignores the endogenous sources of national system transformation and 'within-system' diversity (Coates 2005; Boyer 2005*b*; Crouch 2005*a*; Panitch and Gindin 2005);
- that it has a propensity to 'institutional determinism' in its mechanistic conception of institutional complementarities and neglect of underlying power structures, including social class (Thelen 2003; Crouch and Farrell 2004; Coates 2005; Pontusson 2005; Jackson and Deeg 2006);
- that it has a truncated conception of the firm as an 'institution-taker' rather than an autonomous, creative, or disruptive actor and neglects variation among firms within national models (Allen 2003; Crouch and Farrell 2004; Crouch 2005*a*; Martin 2005);
- that it divides the world into reified notions of LME and CME archetypes and lacks the tools for moving beyond this bifurcation (Schmidt 2002, 2003; Watson 2003; Hay 2005; Pontusson 2005; Boyer 2005*b*);
- that VoC theory is not built deductively, to create Weberian 'ideal-types' that could be used for the construction of hypotheses, but rather creates 'types' by reading back empirical information from the countries it seeks to make its paradigm cases—the USA and Germany (Crouch 2005*a*);
- that it has a manufacturing bias and cannot deal with the presence of sizeable service sectors in CMEs (Blyth 2003);
- that it treats nation-states as 'hermetically sealed' and neglects the linkages between them and the forces of convergence and globalization (Crouch and Farrell 2004; Martin 2005; Panitch and Gindin 2005; Pontusson 2005);

- that it is 'apolitical', equilibrium-biased and downplays conflict (Howell 2003; Watson 2003; Kinderman 2005; Pontusson 2005);
- that it is 'sex-blind' and has problems understanding class inequalities among women and class differences in the nature and patterns of gender inequality (Estévez-Abe 2005; McCall and Orloff 2005*a*);
- and that it neglects the role of the state (Schmidt 2002, 2003; Regini 2003; Watson 2003).

However, many critics caricature rather than fully explore the VoC approach. Regardless of its formulation by Hall and Soskice (2001*b*: 1–3, 68) as an agenda for future research rather than 'settled wisdom', there is a general tendency for critics to treat it as if it were a 'unified theory of everything', attribute to it claims that it has never made, and consequently to fall wide of the mark in their attacks (see, e.g., the rebuttal to several critics in Hall and Soskice 2003). Even from the brief synopsis above, it is clear that, far from being static, VoC has a strong, non-deterministic understanding of change, given its appreciation that the institutions that underpin coordination are subject to constant renegotiation. The accusation that it is reductive and limited to LME and CME 'paradigm types' is belied by the attention paid (e.g. by Hall and Gingerich 2004) to economies—characterized as 'mixed-market economies', or MMEs—that fall outside this analytical dichotomy, even if that seam of analysis has yet to be fully exploited. The notion that the firm in VoC lacks the power to innovate in its environment is quite inconsistent with the complexity of its interactions with labour, finance, and other economic agents, as explored in multiple studies inspired by the VoC approach. The claim that the nation-state in VoC is 'hermetically sealed' is unsustainable, given its focus on the nature and dynamics of comparative institutional advantage.

More acute and clearly focused criticisms (such as that concerned with 'sex-blindness') have already produced new and highly productive realms of scientific enquiry (on gender see, e.g., Estévez-Abe 2005; Iversen, Rosenbluth, and Soskice 2005; Soskice 2005), and these suggest that the potential richness of VoC has still to be exploited—the principal motive, in fact, behind the conception of this volume. This is true of its relevance for understanding the conflict generated by political–economic change, its utility for analysing economies beyond the LME–CME archetypes, and its insights into the inter-sectoral dynamics and tensions generated by the rise of the post-industrial economy and labour market 'dualism'. The key ambition of this book is to mine the rich VoC seam as much as possible in our attempt to understand contemporary European developments. Yet we also want to build on its foundations in ways that make it less vulnerable to charges of determinism, functionalism, and over-concern with institutional equilibria. We seek to reveal its capacity for accommodating and understanding the centrality of conflict (class-based and otherwise) in political economies and; the reconfiguration of long-standing coalitions; the consequent challenges these coalitional shifts may pose to complementarities and coordination; and the centrality and changing role of the state in all political economies—LMEs, CMEs, MMEs, and others.

We therefore focus in this book on four key dimensions that are ripe for development and exploration—conflict and coalitions, complementarities and institutional change, the nature of 'mixed market' (and other) political economies, and the role of the state—and answer the more serious criticisms made of VoC.

1.2.1. Conflict and Coalitions

First, regarding *conflict*, questions arise for VoC from numerous directions. Two important challenges that strike at the core of what are presumed to be deeply engrained preferences and structural characteristics in CMEs are first, the apparent willingness of employers in certain key countries to break with long-established commitments to coordination, and second, the potentially disruptive consequences for system stability of company internationalization. According to VoC, one would expect CME businesses to hesitate in liberalizing their main factor markets. But while this was true of the 1980s (Wood 2001), today businesses are pushing a competitive, 'deregulatory' agenda in both labour and financial markets. In Germany, these changes appear to complicate coordination on both the employer and union sides and threaten the long-term stability of the system (Thelen and van Wijnbergen 2003; Kinderman 2005).

Several of these developments are related to internationalization. VoC argues that globalization will confirm rather than subvert the comparative institutional advantage of nations. Competition and the spread of global production networks will reward difference and drive divergence. Evidence suggests that production networks do extend globally in this fashion. But a subversion of institutional structures and relations in *home* locations may also result. A range of studies (Berger et al. 1999; 2001; Berger 2000; Lane 2003; Herrigel and Wittke 2005) demonstrates, for example, that national manufacturers who create diversified cross-border, producer–supplier linkages (spanning Western and Central and Eastern Europe) often use them to change institutional incentive structures, both inside and outside the firm, in their own economies.

Some critics suggest that VoC is unable to accommodate the kind of conflict and change associated with these developments (Regini 2003; Watson 2003). For Howell (2003:122), this is because it renders 'invisible the exercise of class power that underlies coordination and equilibrium in the political economy'; for Allen (2003) and Crouch (2005*a*), it is because VoC tends to interpret the strategic preferences of firms, mistakenly, as endogenous—or complementary—to their environments. Whilst business obviously can be competitive while its location is not or becomes decreasingly so, thus creating a source of incongruity and pressures for eventual change from disruptive firms (Siebert 2003), it is not clear that Howell, Allen, and Crouch are correct in claiming that VoC is unable to accommodate this relatively uncontroversial fact. Their argument does raise a number of questions, however, about the role of class power and the notion of 'complementarities' in VoC theory. We return to these issues below.

Conflict often leads to, or stems from, a reconfiguration of coalitions and alliances. This process may include new alliances with external actors, as economies become more open to foreign capital, including multinationals and pension funds (Rhodes and van Apeldoorn 1998). Hall and Soskice (2001*b*: 64) argue that actors in LMEs will react to globalization by calling for more deregulation, while cross-class coalitions in CMEs will defend strategic interaction and coordination. But there is evidence that a new politics of coalitions in CMEs may be disrupting rather than strengthening existing alliances. Deeg (2005*b*) argues that a domestic coalition for reforming the German financial system has allied with external investors to achieve its goals. Höpner (2001) argues that conflicts over shareholder value in Germany have shifted long-standing coalitions between shareholders, management, and employees. Berndt (2000) portrays an alliance of German small- and medium-sized firms in favour of breaking industrial relations bargains favoured by larger firms. Kinderman (2005) examines the coalition of firms within the large German business associations that is opposing the wage bargaining status quo.

One way to innovate in VoC theory to accommodate such developments is to specify more clearly the circumstances in which firms will exercise 'exit', 'voice', or 'loyalty' and the extent to which exit and voice will imperil or be shaped by existing systems of coordination and complementarities. Another is to identify conditions under which firms will behave *creatively* in ways that challenge the prevailing institutional environment and begin to transform it (Hancké and Goyer 2005: 5). Explaining such developments requires a more dynamic conception of firm interests according to sector or market circumstances than VoC has traditionally provided and leads us to look at how complementarities affect institutional change.

1.2.2. Complementarities and Institutional Change

Can a literature that has largely focused on system coherence and complementarities accommodate contradiction and disjunction? The notion of complementarity has been central to VoC, and its continued relevance is strongly advocated by its main proponents (e.g. Hall 2005: 376). Building on Aoki (1994) and North (1990), Hall and Soskice (2001*b*: 17–18) argue that 'nations with a particular type of coordination in one sphere of the economy should tend to develop complementary practices in other spheres as well' (2000*a*: 18). This notion of institutional reinforcement explains VoC's arguments for path-dependent change in line with certain system logics. Crouch and Farrell (2004: 8–9) counter that a focus on the 'coherent logics of ordering' prevents an understanding of 'incongruencies, incoherence, and within-system diversities'. In one of the most thoughtful recent critiques, Streeck and Thelen (2005) contrast VoC's overemphasis on system stability with other approaches (including their own) that are more open to the dynamics of institutional innovation and punctuated equilibria.

This debate indicates a divide in the literature between the complementarity-based VoC form of analysis and a looser, power/interest-based perspective. Deeg (2005*d*) refers to these, respectively, as the 'equilibrium-functionalist' and 'historical-political' approaches. But such methodological distinctions may be less important than at first glance. The commonalities rather than contrasts are highlighted if we place Hall's notion (this volume) of institutions as flexible, subject to defection and always demanding a renewal of support alongside Streeck and Thelen's conception (2005: 12ff.) of institutions as a 'regime (...) continuously created and recreated by a great number of actors with divergent interests, varying normative commitments, different powers, and limited cognition'. The critical difference seems to be the role for rational calculation in the Hall–Soskice view of strategic interaction versus the importance of agency and open-ended (though power-driven) outcomes in the analysis by Streeck and Thelen (Deeg 2005*d*).

In this volume, we wish to retain the notion of complementarities as used in VoC but chart a path between its more functionalist interpretations and the dangers of a more open-ended, unstructured voluntarism. The direction of that path is signalled by recent analyses of European political economies that reveal several competing interpretations of the relationship between complementarities and change, whether generated endogenously, by external pressures, or by a combination of the two.

The first interpretation is that *change can occur in a given institutional architecture without changing the nature of core complementarities*. This is because actors will seek institutional and functional equivalents to pre-existing forms of coordination. Such action, we argue, reveals strategic calculation as well as power-driven agency—suggesting there is little analytical merit in trying to divorce the two. Thus, Goyer (2002; this volume) argues from his study of French and German corporate governance that complementarities coexist with change and evolution: while in theory there are multiple responses available to firms when confronted with external stimuli or shocks, in reality the range of responses available is limited by their institutional context. Thatcher (this volume) suggests that while formal sectoral institutions in MMEs such as France or CMEs such as Germany may begin to emulate their LME counterparts, informal networks, opportunity structures, and actor (including government) strategies remain distinct. Vitols (2004) argues that the German financial system remains bank-based, despite a shift towards a US-style regulatory framework: continuity is driven by 'complementarities and continuities in household savings and investment behaviour and in patterns of company sector demand for finance'. Hassel and Rehder (2001) and Hassel (this volume) argue that while the function of German wage bargaining has changed to accommodate the emerging cost competition-driven model of wage regulation, its strongly organized and centralized form remains stable. Actors still face incentives to preserve the existing system of coordination.

A second interpretation is that *change may be limited to one sub-sector of the economy, which may be significantly transformed, without spilling over, or snow-balling into others*. We argue in this book that compartmentalized change can occur without threatening coordination as such, as CMEs open up, for example, to 'alien' forms of organization such as growing service sectors. As Hall and Hassel (both in this volume) argue, an increasing degree of dualism in labour market organization indicates a loosening of coordination in some spheres of the economy, while strategic coordination remains important in others and for many firms. Höpner (2006) argues that certain institutional features of a political economy may turn out to be redundant rather than complementary and that their decline or demise may have little or no impact on the coordination of the production regime as such. Support for this thesis also comes from Deeg (2005*a*, 2005*b*) whose analysis of German finance suggests that subsystems are less closely linked than often assumed. Jackson, Höpner, and Kurdelbusch (2005) make the same argument regarding the relationship between patient capital provision and employee involvement in German firms. Though complementary to one another, they argue that the relationship is neither rigid nor causal—preventing change or implying coevolution—and that the linkages between them are subject to constant renegotiation.

A third interpretation argues, by contrast, that under certain circumstances *spillovers, snow-balling and contagion can occur, spreading change from one subsystem to another, precisely* because *complementarities in the purer CMEs are so tightly coupled*. Vitols (2004) notes that path-shifting change *could* occur in German finance, altering the centrality of banks, in the event of an increase in income inequality and a further pensions reform encouraging more private retirement savings. Höpner (2001: 35) argues that competitive impulses are spreading beyond German corporate governance, as in the causal link between the increasing adoption by firms of shareholder value principles and their demands for more market-driven industrial relations. Contesting the stable equilibrium analysis of German ownership (e.g. Kogut and Walker 2001), Höpner (2001; Höpner and Krempel 2003) argues that complementarities between different fields of corporate governance are also unwinding the ties that bind the country's large companies together, threatening strategic coordination. In a more recent contribution, Höpner (2006) makes the interesting observation that non-liberal economies have two important properties—coordination *and* organization (the latter is defined as the web of institutionally sanctioned collective interests surrounding the firm)—and that market liberalization may differentially affect the two. While spillovers and contagion might undermine coordination, organization (as he argues for the German case) may remain strong.

But will coordination erode to the point of collapse, auguring a transition in Germany towards a capital market-based system? Or will firms retain the critical aspects of coordination that have served them well in the past? Although there is much speculation regarding the former (e.g. Hackethal, Schmidt, and Tyrell 2005), most evidence points to the latter. Thus, Peter Hall (this volume; also Callaghan 2004) argues that countries in Europe have indeed altered their institutions in the face of domestic challenges and changing international conditions, but those changes have been strongly conditioned by past institutions and underlying complementaries have been maintained.

1.2.3. The Nature of Mixed (and Emerging) Market Economies

A further set of questions concerning the nature, function, and future of complementarities are raised by developments in what Hall and Gingerich (2004) portray as 'mid-spectrum', mixed-market political economies, or MMEs. Although they focus on the purer CMEs and LMEs, Hall and Soskice (2001*b*: 35–6) claim that VoC can also be useful for understanding political economies beyond these ideal-types and that each economy displays capacities for coordination that condition how its firms and governments behave. This begs the question, though, of how pertinent the core concept of complementarities is for analysing such countries and how one should understand their dynamics of change.

The evidence (Molina and Rhodes, this volume) shows that 'mid-spectrum' MMEs (and what we refer to as EMEs in Central and Eastern Europe) mix market regulation with some elements of coordinated regulation as well as state-compensating coordination, sustaining subsystems that are far from 'correctly calibrated' over time. But does the absence of CME- or LME-type complementaries, and the lower degree of 'general efficiency' they generate, compel actors in these economies to create them, and move in a CME or an LME direction? Will they remain in their suboptimal institutional locations because strong actors—including state actors—wish to retain their stakes in the status quo (Bebchuk and Roe 2004; Pontusson 2005)? Will they derive only diminishing returns from the absence of ideal-type complementarities in their systems unless they can achieve some kind of systemic recalibration? Hall and Gingerich (2004) argue that this will indeed be the case: that 'hybrid' systems—such as those of southern Europe and the emerging market economies of Central and Eastern Europe—will *ceteris paribus* underperform 'purer' types.

But others (Boyer 2005*a*, 2005*b*; Crouch 2005*a*) have warned against what they call the 'functional assumptions' underpinning this form of reasoning, pointing to the operation of complementarities across policy domains with different rationales and the potentially positive effects of hybridization when national architectures are heterogeneous and loose. Höpner (2005: 383) also suggests that, even if the broad institutional contexts lack coherence because of conflicting governance modes, certain institutions, or clusters of institutions within them may still be complementary in a functional, mutually reinforcing sense. An example might be the 'northern galaxy' of large firms and the localized industrial districts found in Italy. If we accept institutional heterogeneity as a valid—and logically possible—source of institutional complementarities, then it may also be possible, in theory, for mixed economies to find their own forms of coordination in line with the needs of their respective production systems. Nevertheless, as evidence from analyses of MMEs and EMEs in this volume and elsewhere reveals (e.g. European Commission 2003; Radosevic 2005; Jones and Rhodes 2006), the core Hall–Gingerich insight that economies with mixed or poorly calibrated modes of coordination will be outperformed by more coherent systems remains a valuable one. As Amable (2003) argues in his analysis of social systems of innovation and production, this relates in particular to their poor capacity for developing 'technological intensity'—the consequence precisely of institutional 'a-complementarities'.

1.2.4. The Role of the State

Given its concern with the micro-foundations of the political economy and specific focus on the firm, macro-*political* as opposed to macroeconomic structures have not played a prominent role in the Hall–Soskice approach to

VoC. This has led critics to either stress the role that the state (still) plays in coordinating and shaping the political economies of many countries or to develop alternative typologies in which the state is a major determining variable.

Differentiating himself from the basic Hall–Soskice approach, Whitley (2005) argues that the state plays a critical role in determining the characteristics of the business system and how employers behave associationally. He also argues that where the state adopts an active role in economic development (the 'developmental state') by directly intervening in certain sectors of the economy, the result is a greater diversity in employment policies, bargaining procedures, corporate governance, systems of skills formation, etc., between firms of different size within the same sector. Other authors go further, identifying separate models of capitalism in which the state plays a predominant organizing role. Schmidt (2002) creates her own typology of capitalist models, separating 'state capitalism' (France) from 'managed' and 'market capitalisms' (Germany and Britain, respectively). Amable (2003) introduces a grouping of countries in his analysis of the diversity of modern capitalism in which the state plays a determining role—the European-integration/public social system of innovation and production (SSIP)—alongside three other European SSIPs (market-based, meso-corporatist, and social-democratic) and goes on to propose five international models of capitalism: market-based, social-democratic, Asian, continental European, and south European. Boyer (2005*b*) favours a similar categorization.

In the following, we share the VoC focus on coordination as the distinguishing feature of comparative political economies and suggest that the state can be accommodated within the basic VoC framework. This is because we view the state as one element among others of coordination and one that is present everywhere—in different forms, with different functions, and to varying degrees. There is too little analytical value-added to be derived from adding a separate variety of capitalism defined exclusively by the role of the state—especially given the transformation and diminution of that role wherever it may have been strong in the past. An approach that focuses on state mediation, control, and direction derived from the empirical case of pre-1990s France (Schmidt 2002) also fails to illuminate the still central though quite different role of the state played, for example, in the southern European economies which we refer to below (see also Molina and Rhodes, this volume) as predominantly 'compensatory'. The basic (and uncontroversial) insight that the state is important across a diverse range of political economies also inspires Amable's search for even more capitalist varieties, based on a wide range of indicators and characteristics, including not just the state and public intervention but science, technology, labour markets, competition, finance, and more. But the dangers in this approach (cf. Crouch 2005*a*) are that analytical power and parsimony are sacrificed in favour of a greater capacity for detailed description; and that in an effort to account for the entirety of national political economies, the quantity of variables proliferates but the number of core insights is reduced.

1.3. INTERESTS, COALITIONS, AND INSTITUTIONAL FRAMEWORKS

The questions raised by the preceding discussion can only be resolved by empirical analysis; however, that discussion does help us appreciate the ways in which the concept of complementarities can be nuanced and rendered less rigid than it is often thought to be, thereby enriching the VoC approach. It can also lead us via further theoretical development to a more complete understanding of the dynamics of change in different kinds of political economies. We believe, as stated earlier, that achieving that goal demands paying closer attention to class, coalitions, and the role of the state than is the case in either conventional VoC analysis or in most of the literature that has criticized it for its alleged functionalism.

Streeck (2005*a*: 583–4) has argued strongly that what are often regarded as institutional complementarities in political economies today were born from class and industrial conflict in the past and the solutions that were found to them 'in the interstices of functionally interdependent institutions built with distributed power and in pursuit of particularistic sectoral interests'. We are broadly sympathetic with that claim, and its core insight helps inform our discussion of networks and class- and sector-based coalitions below. There we make institutions the dependent rather than the independent variable, as they frequently are in much recent analysis. Specifically, we focus on the ways in which networks and class coalitions evolve (and potentially also *devolve*) around 'friction points' in relations between institutional subsystems. By raising the profiles of networks, class coalitions, and the state in the VoC framework, we argue that many of the problems and weaknesses frequently attributed to it can be resolved without detracting from the power and parsimony of its core insights.

1.3.1. Business Interests and Networks

Many of the contributions in this volume suggest an understanding of coordination and complementarities that builds on a set of prerequisites associated with networks of actors with broadly similar interests. Hall and Soskice (2001*b*) repeatedly refer to different modes of coordination in these terms, but give less attention to the ways in which such networks emerge. However, at least since Olson (1965) we have been aware that a confluence of interests is an insufficient condition for collective action to ensue. But while Olson locates the capacity for collective action in the distribution of sanctions and rewards, we emphasize the historical emergence and reproduction of networks. We make three broad points: that different modes of economic governance reflect a politically constructed institutional matrix, built in large part on elite networks; that these elite networks sought to control the strategic levers of the economy and state at politically opportune moments; and that the mechanisms that reproduce network structures provide for different levels of coordinating capacity.

As for the character of the institutional matrices, in LMEs, strong networks do not emerge easily because their competition regimes preclude trusts and 'collusion'. In the UK, moreover, business networks have in any case been fractured by historical divisions between banking and industrial capital. By contrast, the origins of post-war German 'organized' capitalism can be found in the networks that tied many large firms and banks together in powerful industrial-financial groups before the Second World War (Hilferding 1910; Gerschenkron 1962; Herrigel 1996). Even after the break-up of large cartels by the Allies, it took little time for these groups to be reconstituted (Berghahn 1996). In France, modernizing elites constructed such business networks after the Second World War (Kuisel 1981). The founding of new, and the revamping of old, elite schools (*Grandes Écoles*), and the central role of the Treasury in allocating industrial credit, produced a state-centred system (Zysman 1983). Italy's pyramidal ownership structures and conglomerates with strong horizontal ties, spanning firms and banks, allowed pre- and post-war elites to create collaborative, defensive, and closed business networks. As for Central and Eastern Europe, King (this volume) argues that the roots of contemporary CEE economies lie in their pre-1989 class structure, in which party bureaucrats wielded power and technocrats managed production. Depending on which of these sectors gained the upper hand prior to the 1990s transition, the emerging form of economic governance reflected these relative positions of power: liberal capitalist in the case of the technocrats; oligarchic in the case of the party bureaucrats.

Different modes of economic governance, in both the 'old' and 'new' capitalist states of Europe, thus reflect a matrix that is frequently politically constructed. The French state-centred elite system, German cartels, and Communist technocrats differ in many respects; but all share networks as the basis for their country's prevailing mode of business governance. The post-war French and the state-socialist networks, moreover, have their roots not in the economy but in the state apparatus (even if the boundaries between state and economy are highly permeable), whereas the German cartels were orchestrated by leading industrialists. This matrix socializes economic elites and provides a central building block for the rest of the political economy, since the broad orientations developed by these leading groups also influence the choices that other actors can make.

Second, elite networks achieved their centrality because they sought to control the strategic levers of the economy and state at politically opportune moments: the post-war governments led by De Gaulle in France did just that; the reconstruction of the post-war German economy along 'ordo-liberal' lines provided the ideological framework for the social market economy; the large public sector under IRI in Italy merged and modernized a scattered small- and medium-sized industrial sector; and the political and economic chaos of the post-communist transition was exploited by some networks better than others. The role and function of the state is important in all three instances and contributes to both the structural coherence of economic governance and the potential for functional complementarities. In the German case, it provides a strong legal framework for intensive interaction between the core elements of the corporate governance system—finance, firms, and labour; in France (and other Mediterranean economies), state intervention has both impeded autonomous interest intermediation and articulation and compensated for the consequent weakness of economic coordination; in the Communist countries, the suppression of freely coordinating actors has given way since the early 1990s to quite different forms of market governance, depending on the pre-capitalist balance of power between bureaucrats and technocrats.

Third, the mechanisms that reproduce network structures provide for quite different levels of coordinating capacity. For networks to become and remain building blocks for coordination, they require both *external* reproduction (the recruitment of new members into the network) and *internal* reproduction (the development of sanctioning mechanisms that secure compliance). The *Grandes Écoles* in France, family-based, holding-type ownership patterns in Italy, the importance of industry associations built on technical knowledge in Germany, and party membership in the former Soviet block countries have all performed such functions. Internal reproduction mechanisms run from simple reputation games in France (see Hancké and Soskice 1996; Hancké 2001), via binding sanctions for club members in Germany (Soskice 1999; Wood 2001), to family-dominated, firm–finance linkages in Italy, to political promotion in the former Communist countries. But whether functional compatibility and complementarity result will depend on the extent to which markets and their actors are *freely coordinated* (high in Germany's bank–firm–labour complex, medium in France's state-business system, and low—at least outside the industrial districts—in highly politicized Italy), rather than coerced and suppressed (as in the command economies of the former Soviet bloc).

Business networks are therefore to be found at the basis of coordination via three mechanisms: the institutional architecture of business, a set of short-term and long-term reproduction mechanisms, and a political opportunity for the groups that make up the networks to secure influence over the economy and, if necessary, the state. If they are all present, we claim, together they will help create a form of institutional coordination that will be structurally coherent and functionally complementary; if they are absent or only partially present, then core complementarities are unlikely to develop and an economy may even take an LME-type path. The radical and deep collapse of national state-economy links in Central and Eastern Europe provides a case in point, for their instant immersion into the international economy (captured in the metaphor 'rebuilding the ship at sea') made it very difficult for non-liberal capitalist elites to capture their commanding heights (Innes 2005). Slovenia (see Feldmann, this volume) is the exception where the political opportunity was clear, its elite sufficiently cohesive and nationalistic and the possible trajectories open. It was, therefore, able to convert its pre-1989 institutions into a CME-type framework.

If networks are at the basis of business coordination, what does this imply for the construction of broader institutional frameworks? One answer to this question, which is implicit in the VoC framework, is that institutions reflect the needs of business. This conception has, correctly in our view, come under criticism for its unnecessarily functionalist assumptions: capital may indeed be crucial in capitalist economies, but, paraphrasing Marx, it does not choose the conditions under which it operates. We therefore introduce the two other central actors in capitalist economies that influence these conditions: labour (and its relationship with capital) and the state.

1.3.2. Labour, Capital, and Cross-Class Coalitions

Labour constrains business in two ways: directly, because business needs workers and their skills to produce goods and services, and indirectly, via the constraints of collective organization. National 'settlements' between capital and labour reflect their relative positions of power. While VoC analysis typically focuses on companies rather than labour, we argue—in VoC-compatible fashion—that these settlements result from a confluence of equilibrium strategies on both sides (see also Iversen 2005; Iversen and Soskice 2006*a*).

Regarding labour, if skills are predominantly industry- or firm-specific, it will prefer CME-type institutions and policies. As Iversen (this volume) argues, employees in CME countries who have a high proportion of specific skills will also prefer a higher level of social insurance (and hence redistributive spending) than employees in LME nations where the proportion of general skills is higher. But when skill profiles are more general, as they predominantly are in LMEs, the choices are more complex. Employees in the primary segments of the labour market (lawyers, consultants, investment bankers, etc.) are likely to prefer liberal market institutions and individual rather than collective action. The rest may then be forced to fall in line and develop strategies that increase their survival in highly competitive labour markets. As for capital, two equilibrium strategies are available, VoC tells us, since the nature of skills is tightly linked to other labour market institutions. Specific skills, plant- and firm-level workers' participation, and coordinated wage bargaining all help safeguard the high value-added product market strategies of large CME firms, while general skills, unilateral management, and decentralized wage-setting allow for quite different company strategies in LMEs. Cross-class coalitions in CMEs can be understood as the point where the strategies of labour and capital meet: both have strong preferences for thick, inclusive, and well-institutionalized frameworks. Because both benefit, they will therefore fight for their survival. In LMEs, the interests of both employers and highly skilled employees tend to converge on a less well-regulated institutional framework.

Introducing class into the standard VoC framework allows us to explore several points of criticism levelled against it. One is that institutional frameworks are not simply reflections of the strategic needs of firms, or the functional needs of 'systems', but express underlying cross-class coalitions, which in turn reflect the relative power—and agency—of important sections of capital and labour. Note, though, that while rendering the VoC framework and arguments more dynamic and realistic, this emphasis on class dynamics does not alter their basic logic. However, there are clear analytical gains from introducing the notion of a cross-class settlement—not least because it offers a more dynamic view of the emergence of institutional frameworks than many find in VoC and allows for a finer grained analysis of institutional change.

Equally important, an emphasis on cross-class coalitions allows us to respond to criticisms of VoC's alleged conception of the firm as an 'institution-taker' rather than an autonomous, creative, or disruptive actor (cf. Allen 2003; Crouch and Farrell 2004; Crouch 2005*a*). As suggested above, coordination is not constructed by the business class *as a whole*, but by its dominant sections, primarily those that are found in the large firms in CMEs and in the labour markets surrounding the leading sectors in LMEs—and often only after protracted struggles for control of the class agenda. Few doubt, for example, that

CME-type institutions are in the best interests of large firms in CMEs, which may derive significant complementarity-like benefits from the institutional relationships that underpin the cross-class coalition (Hassel, this volume). But it is considerably less evident that they are also in the interests of small firms in CME, for whom collectively bargained labour costs, and other concessions related to the cross-class settlement, may simply be prohibitively high, or become so as the dynamics of economic growth shift from manufacturing to services (Rhodes 2005).

Cross-class coalitions and their institutional settlements therefore face a perennial problem. Since the rules and institutions that reflect the settlement may not be in the interest of all, and may even be against the interests of important sections of the class, cross-class coalitions are fundamentally unstable. Large and small firms in an economy, for example, do not necessarily have the same interests, nor do firms that produce primarily for export as compared with those based in domestic markets. The interests of large firms in the exposed manufacturing sector will diverge substantially from those of small firms in the sheltered sector, and as employment in the latter expands, the potential for disruption of the cross-class settlement will increase (Gourevitch 1986; Rogowski 1989; Frieden 1991; Franzese 2002). Similarly, workers in small companies do not necessarily share the priorities of workers in large firms, and—arguably a more contentious statement—according to some economists, unskilled workers may find themselves kept in low-paid employment (or worse, unemployment) by what they call a 'wage cartel', led by large firms and their workers and trade unions (Lindbeck and Snower 1989). If underlying interests within classes in a political economy can be as diverse as this, the cross-class coalitions at the basis of coordination in CMEs (and possibly other non-LMEs) appear to be highly fragile arrangements which require permanent reaffirmation. However, if they are intrinsically unstable, why do we not witness more defections from the system as a whole?

One important part of the answer to this question is obviously related to intra-class politics, and the codification of institutional arrangements in favour of the winners who lay down the rules for others—an example of the ways in which institutions can develop complementary forms of intensive interaction from a cross-class settlement of conflict. Swenson's analysis (1989) of labour politics in Sweden and Germany showed how in interwar Sweden the export sector and the metalworkers union forged a coalition against the interests of firms and their workers in the sheltered sector to impose a centralized wage bargaining system. More generally, the post-war settlements in most of Europe primarily reflected the interests of the fast-growing modern sector—business and workers in large, mass-producing firms (Piore and Sabel 1984). And even today, collective bargaining systems frequently use large firms, with standardized job classifications and wage scales, as their main point of reference. Yet these struggles were not settled by power alone: side-payments made the settlement acceptable to those whose interests were inadequately reflected.

On the workers' side, institutionalized subservience has come with an important benefit: in most (non-LME) European economies, wages for workers outside the core sectors of the economy are negotiated in the shadow of the modern large firm-led sector, and their wages are usually set following the prevailing rules in large industrial firms. Wages for these workers thus acquired a level of protection, predictability, and standardization that they would not have had otherwise. Even small firms gain from the arrangement, since they are allowed to exploit the benefits of coordination (such as well-developed skill provision and technology transfer systems, standardized wage grids, and social peace) without incurring all the costs. In most countries, small firms have choices with regard to the menu offered by the institutional framework: workers' representation thresholds exclude the vast majority of small firms, negotiated wages set a maximum for them (while frequently providing a de facto minimum for large firms), employment protection may differ between large and small firms, and escape clauses for small firms have either been in existence for a while or were recently introduced in the more 'rigid' systems such as Germany.

Throughout this analysis of the nature of class coalitions runs a question that has been addressed to VoC since its inception. How can we differentiate between (*a*) an institutionalized compromise that worked well in the past (irrespective of why it existed in the first place) and which persists because of the potential and actuality of strategic, functional complementarity and (*b*) an institutional arrangement that was consciously designed, in part as a result of strategic interactions between socio-economic actors, and whose complementarities stem from distributive settlements whose *raison d'être* may erode and decline (Streeck 2005*b*)? This issue goes to the heart of the debates on the neoinstitutionalist approach to political economy: in the first case, actors have internalized the constraints of the institutional framework (and the framework becomes to a large extent constitutive of those very actors), while the second case leaves more room for contingencies. The difference between the two is clear in how they account for change: if institutions are indeed constitutive of actors, then actors permanently reproduce the institutional framework, and change can therefore only occur when it is exogenous and sudden. In the other view, change in the institutional framework can occur in several ways: shifts in the existing cross-class coalitions, in the intra-class politics underlying coordination (e.g. when public sector trade unions dominate), or in the sociological conditions underlying the reproduction of business networks. In such cases, as Hall and Thelen (2005) have argued, the likely result is a shift in the mode of coordination. While VoC's critics maintain that the approach is imprisoned in the first perspective, we see no reason for that assumption if the agency of cross- and inter-class settlements are given their full and rightful place in VoC analysis.

Recapitulating our argument thus far, the causal chain that we have developed has the following three steps: (*a*) business networks are translated, to varying degrees, into modes of coordination; (*b*) the dominant sections of labour and capital enter a cross-class coalition, coercing and bribing others to follow; (*c*) this cross-class coalition then sets mutually agreed rules that strengthen the internal reproduction of the network and, by extension, the mode of coordination and its specific national manifestations. But only in certain circumstances—when markets and their actors are freely coordinated—do synergistic or strategic forms of complementarity emerge.

1.3.3. The State

This brings us to the third neglected issue regarding the nature and origins of coordination in VoC: the state. The dual equilibrium strategies and stable class coalitions examined above are obviously ideal-types, closely resembling LMEs and CMEs. However, most empirical instances will differ in one way or another. For example, business coordination may be underdeveloped, and/or labour representation may be far from unitary and based on ideological divisions. Under those conditions, strategic interaction may only occur sporadically, and infrequently produces stable institutional arrangements (Molina and Rhodes, this volume). As suggested by Hall and Gingerich (2004), in 'mid-spectrum' economies, CME-type strategic complementarities, positive spillovers, and public goods provision are inhibited by power asymmetries, organizational fragmentation, and class conflict, as (for the same reasons) are the complementarities that derive from the less visible market discipline found in LMEs. Yet instead of facing permanent and destructive economic dysfunctionality, in economies that exhibit such patterns—e.g. France, Italy, or Spain—stability appears to prevail as well (as too does strong economic performance), and often the state provides that element of stability (if not fully fledged coordination) by compensating for weaknesses elsewhere in the political economy.

The main problem with the state in VoC analysis is that it is too often regarded as a reflection of the existing mode of coordination with no autonomous role to play. In its simplest form, the assumption seems to be that where the state attempts to push through reforms that contradict the basic interests of a well-organized business class—even if that implied substantial deregulation (see Wood 2001 on Germany)—the outcome would be the status quo, barely modified. Conversely, where business had a clear interest in deregulation, but was too weak to pursue this, as in the UK (and perhaps in a different way in France), government policies were simply aligned with the interests of business. The Thatcher and Reagan reforms were, in this view, nothing more than the state waging class war by proxy. Government policies will only work if they are *incentive compatible*, that is if they reflect the underlying mode of competitive or cooperative business coordination (Rhodes 2000; Wood 2001). In other words, politics follows economics: the nature of the state reflects the interests of business.

In many nations, however, the state is considerably more activist (Evans and Rueschemeyer 1985). In countries as diverse as France, Japan, Italy, and Korea, the state played a crucial role in defining, supporting, or organizing the post-war growth model. In later arrivals on the capitalist scene, the state's role has been both more (e.g. in Latin America and Southern Europe) and less (as in Central Europe) than the simple LME–CME dichotomy suggests. The transition to capitalism involved a dramatic *expansion* of the state's activities in the economy in the former, and a forced *reduction* in the latter, sometimes against the immediate interests of a nascent business class at the time (Innes 2005). The diversity in state–economy relations that persists until today suggests that there is a benefit in establishing the state and the mode of business coordination as analytically independent properties of any given model of capitalism.

1.3.4. A Revised Typology of Capitalist Varieties

Let us begin with the two basic forms that relations between the state and the (supply side of the) economy can take in advanced capitalism: either the state has close direct influence over the economy (e.g. as the owner of industries and/or main provider of industrial credit) or the state is primarily a regulator operating at arm's length. Post-war France and to some extent post-war Italy, as well as some Central European economies fall into the first category, while the UK, Sweden, and Germany fall into the second. Class-based interest organization, in turn, can run from being highly structured to being highly fragmented. In most countries, the levels of business and labour organization tend to mirror one another in this respect. In the first (highly structured) category, individual companies and industry associations or industrial groups balance their respective strategies and are able to strike bargains with organized labour. In the second (fragmented) category, collective interest definition above the company level is more or less absent, either

Interest Organization	State–Economy Relations: **Close**	State–Economy Relations: **Arm's-length**
Fragmented	*Étatisme* France pre-1990s	*LMEs* UK, Baltics
Organized	*Compensating state* Italy, Spain some EMEs	*CMEs* Germany Slovenia

Figure 1.1. State-economy relations, interest organization, and modes of coordination

among firms or between their representatives and (similarly fractured) trade union organizations. Dichotomizing these two continuums into a matrix (Figure 1.1) leads to the following four ideal-types of coordination.

We want to stress that we are hereby creating logical categories for analysis, to which particular countries will broadly (though never precisely) conform, rather than constructing a typology by 'reading back' from empirical examples which we consider paradigmatic—a charge that has been levelled (though wrongly, we believe) at the original Hall–Soskice formulation of the LME–CME ideal-types (Crouch 2005*a*). Note also that we do not identify EMEs as a separate variety of capitalism of equivalent analytical status to the rest: we simply wish to indicate by this term their transitional character and that their respective mixes of modes of coordination (market and non-market) are embryonic in some cases, more developed in others, but in all cases still in a process of institutional construction.

The first 'type' or mode of coordination, *étatisme*, has traditionally been associated with post-war France, where the state controlled the strategic levers of the economy through outright ownership of many companies and control of industrial credit (Hall 1986: 204). Partly as a result of the state's dominance and partly due to the deep interpenetration of the state and the economic elites, business organization in France has been weak. In privately owned companies, management and owners have typically relied on themselves for providing the resources they needed, refusing to allow external agents, including associations, to play a role in that process. Similarly, unions have been weakened by ideological fragmentation and their weak roots in the workplace (outside the public sector), while they lack effective vertical links between confederal, sectoral, and firm levels. Since both business and unions were weakly organized, and the state predominant in economic governance, the capitalist model was built on the state (Levy 2000). Strategic complementarities, to the extent that they have existed at all, could be found in state–business linkages in the large-firm sector, based in the credit-allocation system, and predominantly in traditional manufacturing and public utilities (see Börsch and Thatcher, both in this volume). State-protected markets and business in high-technology sectors have, by contrast, been highly dysfunctional, delivering poor results and high-profile policy failures (Rhodes 1985). In industrial relations, atomized business finds a parallel in the weak and ideologically divided labour movement. The result is less a class compromise or coalition than a permanently contested truce that frequently breaks down into conflict.

A different constellation can be found where the state is important as an actor in industrial policy, but where business is also relatively well-organized, more as a result of the type of ownership structures than associational capacity. Italy exemplifies this type (Molina and Rhodes, this volume), although Rhodes and van Apeldoorn (1997) embed it in a broader Mediterranean family. There the state organized a large state-controlled business sector that has provided key basic industrial inputs and compensated for the absence of autonomous arrangements for capital and labour. The 'compensating' role includes state-funded wage-compensation schemes during industrial restructuring and a social transfer-oriented welfare state. Business and labour tend to be better organized, and wage bargaining more coordinated than in France. But the scope for synergistic, VoC-type complementarities is limited. Interest organizations are strong enough to make demands on the state but insufficiently cohesive to provide it with dependable bargaining partners. Attempts to build more effective coordination also run up against prisoners' dilemma-type collective action problems, including anticollective behaviour on the part of firms (and employees); an acquiescence in 'inefficient inertia', due to the sunk costs confronting agents for change; and the capacity of firms to offset the lack of complementarities by seeking competitive advantage by other means (Bebchuk and Roe 2004). In Italy, the latter have included frequent competitive devaluations, government subsidies, cheap immobile factors of production, and evasion of taxation and labour laws. Only in the northern industrial districts do local functional equivalents of coordination appear to operate.

The third type of state–business relations, and form of coordination, is the one we usually associate with LMEs in VoC. The state sets detailed legal frameworks, leaving business to operate within them, and guards the integrity of market operations by closely monitoring ownership arrangements and market concentration. In part resulting from its history and ownership structures business is weakly organized, and the regulatory frameworks set by the state reinforce this by precluding most forms of deep cooperation. The labour movement, in turn, is decentralized and poorly coordinated, contributing to a conflict-ridden form of industrial relations and strong, endemic weaknesses in employer–employee relations—until submitted, that is, to the market discipline of a Thatcher–Reagan type re-regulation of employment law and labour markets. In LMEs, the political strategies of business are primarily oriented towards influencing the regulatory framework, and considerably less towards finding a compromise with labour (Wood 2001). Some CEE emerging market economies (e.g. the Baltics) have also rapidly moved towards this model. Nonetheless, continual debates take place over the appropriate boundary between the state and the economy. In the principal European LME, the UK, it is only since the 1990s, and the Thatcherite solution to the decades-long contestation of the state–market divide, that liberal market synergies have operated freely (Rhodes 2000).

The fourth and final type of coordination is conventionally associated with the north-west European economies (CMEs in VoC), of which Germany is the prime example. The state plays a small direct role in the economy (but organizes a large and robust welfare state) and offers broad frameworks for companies to operate within. Business is highly organized and relies on strong industry and employer associations for the provision of collective goods. The high level of economic regulation is less the result of state intervention, but rather follows from voluntary agreements by associations (including labour unions) to set limits on the behaviour of individual companies. In this model, state policies only appear to have an effect if they are carried out or sanctioned by these associations. Here too, as in the LME model, the coherence of economic governance is reinforced by functional complementarities. Yet if the class settlement between capital and labour in the LMEs has been fully settled in favour of the former, in the CMEs, as discussed above and in Hall, Hassel, and Soskice (this volume), the class settlement, based on a much more equal balance of power, is now subject to significant strains.

This typology allows us to explore several dimensions of the state's role in contemporary capitalism and to correct its absence in VoC. In the original iteration of VoC theory (Hall and Soskice 2001*b*), the underdevelopment of the state as a factor in economic organization was largely the consequence of the heuristic focus on two types of capitalism in which the state played a relatively distant role. But there is nothing in the approach as such that prevents a fuller accommodation of the state as an actor—architectural or otherwise (see the discussions in Streeck 2005*b*; Hall 2005). We wish to stress that the state plays an important role everywhere, but in different ways. In some forms of capitalism, the state is a central actor in the sense that it provides both a framework for business activities and a means for pursuing them. In other forms of capitalism, as we have discussed, the state is less a promoter of economic activity than a compensator for coordination deficits and provider of political consensus and legitimacy. In still others, the state allows markets to operate within a broad set of regulatory frameworks and refrains from direct interference.

'Bringing the state back in' thus provides us with a typology in which LMEs, CMEs, MMEs, and some EMEs can be accommodated. We believe that this approach is superior to attempts to produce a third model or variety of capitalism alongside 'market' and 'managed' types (Schmidt 2002), in which the state is architectonic (because it is, but to different degrees in all systems), and to other approaches (e.g. Amable 2003; Boyer 2005*b*) which multiply the number of capitalisms in line with a large number of variables or characteristics. While the former conflates a distinctive mode of coordination with a different model of capitalism, the latter accommodates greater empirical complexity, but excessively dilutes the analytical strength of the VoC approach. The typology above also allows us to think about the institutional substructures of these systems, especially the capacity for coalition building and collective goods provision, given contrasting organizational characteristics of capital and labour, different modes of state involvement, distinctive forms of coordination, and the extent and importance of positive complementarities. Section 1.4, where we address some of these points, investigates the ways in which modes of coordination in European economies condition, and are altered or disrupted by responses to contemporary exogenous shocks.

1.4. EXOGENOUS SHOCKS AND DOMESTIC CHANGE IN VARIETIES OF EUROPEAN CAPITALISM

A central question for VoC is its ability to deal with change. Our cases provide a wealth of evidence on this, as over the past two decades European political economies have faced a series of dramatic shocks. These include increasing competition in a liberalized trading order, the massively increased volume and speed of capital flows, and Europe's own responses to the collapse of the Golden Age (the end of Bretton Woods, the oil price hikes, and stagflation of the 1970s and 1980s) in the form of shifts associated with the Single European Market and EMU. After 1989, the Central and Eastern European countries underwent a radical transition from state socialism to capitalism in which economic growth collapsed, and business and welfare systems were forced to adjust. With their lower labour costs and tax rates, they may now pose a challenge themselves to the higher-cost, highly-regulated jurisdictions to their west. These shocks are 'exogenous' in that they are not fully under the control of domestic policymakers who, at most, can influence them by acting collectively, notably through the EU.

How have different countries responded? One argument, popular with economic liberals, is that 'continental' Western economies have failed to adjust, maintaining 'rigid' labour markets, 'excessive' state ownership and regulation, and 'bloated' government spending; in contrast, LMEs, such as Britain and Eastern European nations, have moved swiftly to become more competitive. Our view, by contrast, is closer to the basic VoC insight that distinctive forms of economies—those close to the LME and CME ideal-types—derive their competitiveness from distinctive sources of comparative institutional advantage and will respond to exogenous shocks in quite different, but perhaps equally effective ways (Iversen, this volume). Those economies that diverge from these types and contain mixes of coordinating modes of varying degrees of coherence will struggle to recalibrate their systems (Molina and Rhodes, this volume). Past forms of coordination between labour, the state, and firms, based on pre-existing coalitions and institutionally shaped interests, will condition national responses to exogenous shocks. But we depart from a functionalist reading of VoC in a critical respect in arguing that not all institutional arrangements that underpinned successful cross-class coalitions and were positive for competitiveness in the past will continue to succeed under altered economic circumstances.

Drawing on the contributions to this volume, we compare four different types of nation in Europe: countries that lie closest to the CME type, such as Germany and Switzerland; MMEs such as France, Italy, and Spain in which the state has played a more active role, as promoter, regulator, or compensator in processes of change; Central and Eastern European nations (which we refer to as EMEs) that have rapidly evolved from state-socialist to capitalist economies; and Britain as Europe's most fully developed LME.

The British LME had already liberalized labour markets, retrenched the welfare state, and altered macroeconomic policy in response to the crises of the 1970s and 1980s (Rhodes 2000), and more recent exogenous shocks would seem to have had little impact on coordination in an economy that removed most vestiges of cross-class institutional compromise under Thatcherism. This is not to say that these shocks have no economic effects: there are repercussions, especially in the rapid redeployment of employees across sectors and the creative destruction and rebuilding, in particular of the services sector, that has accommodated so many former industrial workers as well as immigrant labour. Many of Europe's CMEs weathered the storms of thirty years ago with less dramatic consequences. But more recent international shocks seem to threaten the very essence of the cross-class settlements on which these economies have long been based. A host of challenges are regularly cited: high wages, strong employment protection rights, and coordinated national bargaining systems appear threatened by the loss of national control over interest rates and exchange rates, rising cross-national capital mobility, and increasing product-market competition. The social insurance foundations of their generous welfare states are undermined by heightened labour-cost competition, while the state's revenue base is threatened by tax competition. Exogenous forces also pose serious challenges for MMEs such as France, Italy, or Spain. In particular, fiscal constraints, international competition, and the monetary inflexibility associated with EMU and EU regulations all threaten the size of the state, the extensive protection it has typically offered workers and national suppliers and its capacity to compensate for the traditional coordination deficits of these systems.

Both CME- and MME-type nations have responded to these challenges by introducing sweeping reforms over the last decade or so. Take welfare and labour policies. Faced with EMU, greater international competition, and greater sectoral differentiation in productivity gains, national wage bargaining in Germany has been supplemented since the early 1990s by firm-level bargaining that can utilize opt-outs from national-level agreements. Today no fewer than one-third of private sector companies have plant-level accords that allow terms which differ from national collective bargains (Hassel, this volume). German companies have responded by becoming evermore concentrated in high value-added sectors (Hancké and Herrmann; Hall, both in this volume). At the same time, with the creation of badly paid jobs that are not covered by collective agreements and have little security, a dual labour market has emerged: by September 2003, 6.7 million workers were employed in such jobs in Germany, which had the third highest proportion of low-paid workers in the EU after the UK and Ireland (Hassel, this volume). Low wages have been partially offset by increases in government spending on transfer payments. MMEs too have attempted to undertake major reforms that have altered the role of the state and the benefits it traditionally provides to large groups of citizens. Thus for instance, France, Spain, and Italy have liberalized employment rules, and effectively moved to dual labour markets, divided between those workers enjoying permanent contracts protected against dismissal and others working under other forms of arrangement (e.g. temporary or part-time work).

Similar patterns of rapid change can be found in the regulation of markets and firms. Surprisingly, perhaps, Germany and France often supported EU regulation that ended national monopolies in strategic markets such as telecommunications or energy. Domestically, they radically transformed regulatory institutions by privatizing public utilities, allowing competition and creating new independent regulatory authorities (Schmidt 1996, 2002; Thatcher 2004*a*, 2005). Some CMEs, such as Switzerland, but also Germany and MMEs, such as France, have also greatly encouraged stock market development and shareholding, though both remain underdeveloped in Italy and to a lesser extent Spain (Börsch, this volume; Lane 2005; Deeg 2005*b*). In corporate governance, faced with the need to attract foreign investment, France and Germany have both introduced major reforms, notably greater transparency that protects minority shareholders in Germany and an extensive adoption of shareholder value strategies in France (Goyer, this volume; Hancké and Goyer 2005; Deeg 2005*a*).

CMEs and MMEs differ from each other and from LMEs in the extent to which networks, varieties of coordination and complementary institutions have facilitated, obstructed, or otherwise shaped these changes and how cross-class coalitions have been sustained or fragmented. Four examples of coordination mechanisms that shape change can be given here: the structure of business and union associations, informal networks that link public policymakers and suppliers, intra-firm relations, and collective bargaining over training, skills, and wages. Even the transition to capitalism of the countries of Eastern Europe has been shaped by the nature of pre-existing networks.

As discussed in Section 1.2, the nature of class settlements has produced quite different sets of relationships between capital and labour, both inside and outside the firm. When firm-level capital–labour arrangements are weak, management can restructure and switch product market strategies rapidly. In LMEs, this involves relatively low risks for managers; but in MMEs, it is either pursued with limited transparency, or remains contested, as workers may seek to respond, either at firm or company level or by pressuring the state to claw back management autonomy. In contrast, in CMEs, managers have less autonomy than in LMEs and MMEs due to strong mechanisms for workers representation such as works councils that restrict their ability to hire and fire in pursuit of short-term profitability. But in return, as a result of long-standing mutual commitments, employers can offer higher levels of transparency to and enjoy higher levels of cooperation with employees. Both France and Germany, for example, have sought foreign investment, but they have done so in different ways and with different results (Goyer, this volume). Germany has increased transparency, which is attractive to foreign investors; yet because of the pre-existing consultation laws that granted works councils deep information rights, this transparency did not lead to the exposure of sensitive information that management wished to hide from employees. At the same time, these institutions, in combination with stable stakeholder-type finance, limited the inflow of 'impatient capital' and a major restructuring of corporations. As a result, Germany disproportionately attracted patient overseas investors such as US pension funds. In contrast, French firms have enjoyed higher degrees of management autonomy and have restructured and diversified conglomerates to attract mobile foreign capital that demands short-term returns, notably US mutual funds. The transparency measures that were introduced were considerably weaker than in Germany, as management in large companies feared that offering unions and employees more information would in turn limit their power and autonomy.

Inherited coordination mechanisms based on cross-class coalitions, notably between strongly organized labour and employers, also affect national responses to EMU, increased international competition, and liberalized European markets. A central choice for firms is whether to follow a high-value, high-quality product strategy or a low-price, low-cost strategy. The former requires a highly skilled and cooperative workforce, whereas the latter depends on management autonomy to reduce costs. In CMEs such as Germany and Switzerland, powerful coordination mechanisms have allowed cross-class cooperation and associated complementarities to persist, although cooperation has begun to devolve to the firm from industry level in large exporting companies (Hancké and Herrmann; Börsch, both this volume). Firms in export sectors have built on the traditional model of high skills and high wages by using inherited coordinating arrangements and complementarities that link bargaining over wages, conditions, and employment with high levels of training and specialization in skills, in order to specialize further in high-value sectors.

One of the consequences of the latter strategy is that higher productivity gains and greater skills specialization will be labour-saving, compounding the problems of rising long-term unemployment in CMEs such as Germany, and in MMEs with large, highly competitive manufacturing sectors such as France and Italy. As Soskice (this volume) suggests, the combination of strong vocational training (and hence specific skills), an associated risk-aversion to loss of jobs and income, and proportional representation (PR) has led to profound problems in Germany and possibly elsewhere. Governments in the proportional electoral systems that typically characterize CMEs are facing strong demands to maintain the protection of unemployed workers through high transfer payments—ultimately contributing to higher labour costs and adding to, rather than alleviating, the CME service-sector trilemma (Iversen 2005: ch. 6 and this volume). In contrast, in the UK, 'deregulated' labour markets and the absence of labour as a countervailing force make a lower-cost, lower-price strategy, underpinning service-sector expansion more realistic than in the high-value, high-skill approach of the CMEs that continues to serve their manufacturing companies well.

High-value, high-skill strategies in LMEs are concentrated instead in high-tech companies, advertising, corporate finance, and consulting, while service-sector development (both high- and low-value added) in the CMEs is more restricted. Moreover, the majoritarian political system discourages a redistributive coalition between the middle and working classes to pay for high social spending, while the high level of general skills reduces the fear of income loss from unemployment and hence demands for such spending (Iversen, this volume). As Hall convincingly argues in his chapter in this volume, these factors figure prominently among those that have shaped the distinctive ways in which Germany, Britain, Sweden, and France have dealt with wage, work, and total factor productivity challenges over the past several decades. Economic strategies (and government policies) remain differentiated, and in some respects increasingly so, thus supporting the core VoC insight that LMEs and CMEs will evolve in different directions, depending on their respective strengths in mobile versus specific and co-specific assets.

In his chapter, Soskice takes this logic to its conclusion by modelling the interactions between production regime, electoral system, and macroeconomic policymaking. Macroeconomic policy in LMEs, he argues, is less restrictive than in CMEs because of two critical factors which differ. One is a strong, single-party government with a clear majority and fiscal policies that force them to internalize the costs of expansion; the other is the absence of strong trade unions. In such a configuration, central banks need not fear adopting a highly responsive and often less conservative monetary policy, since there are no actors in the LME political economy who would exploit a monetary expansion. In CMEs, in contrast, strong trade unions and an electoral system based on PR can produce an endemic inflationary bias which strong conservative independent central banks have to curtail. In both LMEs and CMEs, inflation is low today, but both arrived there with very different underlying institutional architectures and with very different effects on economic growth and unemployment.

Nevertheless, as Hassel (this volume) argues, LMEs and CMEs are beginning to share one very important development—an increasingly segmented labour market and rising income inequality, due in the latter case to opt-outs and concessions in the wage bargaining system (see Thelen and Kume 2006 for a comparative perspective on this issue). These developments are driven in part by the threat and reality of large manufacturing company relocation to lower-cost jurisdictions in Central and Eastern Europe, and the declining countervailing power of labour. In this context, the strategic complementarities that have long-characterized the German system are intact, and perhaps even deepening. But they are devolving on an ever-smaller core of the economy in employment terms if not in terms of contribution to GDP.

These developments have important implications for the cross-class settlement, which has become more fragile, and for the sectoral interests that underpin it, which have become more diverse. The small firm/large firm, sheltered sector/exposed sector divisions that have always been important (and destabilizing) in MMEs such as Italy and Spain are now becoming an increasingly important feature of the CMEs such as Germany as well. While this does not necessarily mean the demise of CME-type institutional complementarities, it does mean that the nature of the coordinated economy has become more contested and its reaffirmation and renegotiation less amenable to consensus-based solutions as 'insider–outsider' divisions grow (Hall, this volume; Rueda 2005). It also means, as Hassel effectively shows, that there is no necessary complementary link between a CME production system and (more equal) distributive outcomes.

The structure of private interests is important for the policy options that can be implemented by the state, especially when the role of the state is pervasive. Thus, while in MMEs the state is much more directly involved in leading responses to exogenous forces for change than in CMEs (cf. Levy 2005), its actions are conditioned by its ability to coordinate decisions with interests such as business and labour. When those other actors have been fragmented and weakened, governments have been able to introduce liberal market reforms. But responses requiring coordination have been much more difficult. In contrast, when other interests have been stronger, the opposite pattern has been seen. Thus, for instance, in employment policy, Spain has been able to go further than Italy in following an LME-type policy of competing via a low cost, flexible labour force, but has found it difficult to engage in coordinated, active labour market policies (ALMPs) because employers and unions are too fragmented (Molina and Rhodes, this volume). In contrast, faced with more cohesive unions, Italian governments have been obliged to move forwards via concertation, resulting in a slower process of labour market liberalization than in Spain and larger-scale state funding for retrenchment.

Our discussion in Section 1.3 claimed that the role of the state vis-à-vis business coordination is important, though to varying degrees, in the different forms of capitalism that we identify. As our 2×2 matrix demonstrated, that role will differ in terms of the relationship between strategic and arm's-length state intervention, and atomized or organized business and labour interests. These distinctions and their evolution over time, in the transition from conventional public control and ownership through to the regulation of privatized companies, are illustrated in this volume (see Thatcher) by the transformation of Europe's public utilities. An arm's-length state and atomized business and labour organizations, as in the UK, produce weak networks and facilitate market competition. Thus, having introduced competition and privatization much earlier than elsewhere in the EU, the UK saw EU liberalization as an opportunity to export its own market model.

But marketization elsewhere has been heavily conditioned by existing state–business relations. When links between policymakers and national suppliers are traditionally strong, as in France, they can aid a state-led form of privatization and re-regulation. Thus, while French policymakers may have used EU competition regulations to justify domestic reforms desired for non-EU reasons, long-established state–business networks allowed a retention of domestic market control, the building of international champions and an exploitation of expansion opportunities in other liberalized EU markets. But when business organization (in this case horizontal supplier networks) is stronger, and the role of the state is less central, as in Germany, industry-led strategies have resulted. There, privatization and liberalization have been governed by networks linking industry associations, government, and suppliers that have limited the independence in practice of new regulatory agencies (Coen and Héritier 2005).

The transition countries of Central and Eastern Europe provide fascinating laboratory cases of how the state and business interact to create different forms of economic coordination. These countries have all witnessed extensive institutional and political rupture over the last decade or so from which two broadly different types of coordination have emerged—one more market-oriented and LME-like, the other a form of MME, but one in which a powerful though atomized business class dominates and the state is weak. If the old nomenclature is defeated, and patchwork forms of economic control can be established through an alliance between an organized, technocrat-led state and a mixture of foreign and domestic firms, then 'liberal dependent' systems, with open economic relations and high levels of FDI result, as in the Czech Republic, Hungary, and Poland (King, this volume). Trade unions are weak, but the state provides a range of public goods (pensions and other social transfers) for the economy and has modest steering capacity. In contrast, if the nomenclature retains power, as in Russia, Ukraine, or Romania, it uses its offices to acquire private property, giving rise to 'patrimonial' systems in which economic control (coordination would be much too strong a term) is exercised by the nomenclature and domestic producers through patron–client ownership networks. Foreign direct ownership is weak, and the state is also weak and unable to provide adequate public goods.

Complementarities and coordination as understood in VoC theory cannot be said to exist in these countries (whereas 'a-complementarities' abound). As Mykhnenko shows in his chapter on Poland and Ukraine, these economies are currently characterized by rather unstable and largely incoherent mixes of labour market institutions, financial intermediation, and corporate governance. Their evolutionary trajectories are as yet unclear, even if the former bears some resemblance to a Mediterranean MME, and the latter to a continental CME, though with neither its coherence of governance nor its productive interplay of complementarities. But some clearer and more coherent forms of incipient coordination have emerged in other, smaller transition economies. These have taken on a CME-type character in Slovenia but are closer to the LME archetype in the Baltic states, as revealed in their contrasting institutional characteristics, including levels of unionization, the presence or not of works councils and the relative strength of business organizations (see Feldmann, this volume). Each had different institutional legacies: while Slovenia had proto-coordinating institutions such as works councils and horizontal ties between companies, Estonia was highly embedded in the USSR's central planning structure. They also made different policy choices in transition based on different views towards national autonomy. Slovenia, with its stronger sense of national destiny, sold its enterprises to managers and workers, introduced legally supported chambers of commerce and used flexible monetary policy. But Estonia privatized state-owned enterprises (SOEs) to overseas buyers and introduced a non-accommodating monetary policy.

Thus, overall, and in the face of strong exogenous pressures, major institutional reforms have been undertaken in all of Europe's capitalist varieties. But change is particularly arduous in the CMEs and MMEs: it involves visible (re)distributive decisions which question the cross-class settlements that underpin coordination mechanisms, and requires the assent of powerful actors with key positions in those arrangements.

1.5. CONCLUSIONS

There is little doubt that VoC has revolutionized the study of contemporary political economy. Core VoC concepts, such as comparative institutional advantage and complementarities, the (soft) rationalist method that underpinned it, the attention to institutions as building blocks for coordination, and the CME–LME typology that resulted, have become the stock in trade of political economists everywhere, either used approvingly for building research agendas or critically as a foil for developing alternative approaches. The extraordinary range of critiques and debates of the VoC framework is perhaps the best indication of its impact on the field. Even though we have argued that many of those criticisms are unwarranted, many others raise important issues of analysis and logic in VoC, and have led us in this introduction to reconsider some of its basic tenets.

As we have tried to show, an extended VoC framework offers several ways of addressing these critiques. Three avenues of research in particular appear to be promising to us and have underpinned our argument above. The first is to consider the origins of different forms of coordination and different models of capitalism. The political–economic laboratory opened up in Central Europe and a brief comparison of some core European countries suggested that elite networks played a critical role in determining the type of coordination that emerged. The second introduced a more dynamic interpretation of VoC by examining the cross-class coalitions that underpin the different modes of coordination. Finally, we explored the nature of the state and suggested that its relative absence in the original iterations of VoC theory was more related to its heuristic emphasis on CMEs and LMEs and less to intrinsic deficiencies in the framework. We then tied these insights to the broad empirical themes of this volume and showed how they helped us shed new light on the process of political–economic adjustment in Europe.

Our general verdict is that VoC provides a remarkably flexible framework for analysis which, in both its more and less orthodox versions, allows for the development of a highly innovative research agenda. Drawing on both the chapters in this volume and on broader debates, we have demonstrated that VoC can accommodate relatively easily the most important critiques levelled against it. The framework can be extended to incorporate cases that fall outside the standard CME–LME typology without losing the analytical sharpness that came with the original Hall–Soskice formulation. Focusing on cross-class coalitions allows us to explore how coordination is sustained but also how it can be threatened, demonstrating that models of capitalism are not simply class compromises, as Amable (2003) argues, but are as much the products of struggles within as between classes. And the state clearly matters, but in different ways in different models of capitalism. LMEs and CMEs share an arm's-length state–economy relationship, while in other types of capitalism the state is either a central coordinating mechanism (as in France) or compensates for weaknesses in the organization of capital and labour (as in Italy).

As a result of these conceptual extensions, a dynamic picture of capitalism emerges which can take account of change and the political–economic dynamics underpinning change, while keeping us aware of the continuities in the frameworks and in the strategies of the central actors in the different models. The interaction between the role of the state, shifting cross-class coalitions, and the ability of the latter to dominate political–economic agendas may be especially fruitful in analysing changes in modes of coordination. For as long as large manufacturing firms in the export sectors (and their workers) dominate these class agendas—a function of their high degree of collective organization and interest definition—national economies are likely to continue to follow existing patterns. However, when new cross-class coalitions emerge, perhaps furthered or instrumentalized by the state, and if these coalitions come to dominate domestic agendas, modes of coordination may shift.

If we place the analyses in this volume alongside others found in a burgeoning literature that the VoC framework has inspired, we can begin to grasp its power. In recent years, the framework has been usefully extended to include such diverse areas as gender politics (McCall and Orloff 2005*b*), emerging models of capitalism in Central Europe (King, Feldmann, and Mykhnenko, in this volume; Bohle and Greskovits 2004; Innes 2005), links between macroeconomic frameworks and microeconomic adjustment (Hancké and Rhodes 2005; Carlin and Soskice 2006; Soskice; Hancké and Herrmann, both in this volume), electoral politics (Iversen and Soskice 2006*b*), and the political economy of liberalization and privatization in OECD countries (Thatcher 2004*b*). A very rich harvest indeed, and one which has significantly enriched our understanding of the world. If only ten years ago, we thought that we probably knew less than ten years earlier,[1] we can now say with certainty that we currently know more, and that VoC helped us get there.

Ultimately, however, an analytical framework such as VoC is only as good as its ability to make sense of what is going on in the world around us. And that world is changing quickly. We have tried to show that VoC is a useful tool to make sense of many of these changes, but others may disagree. We can therefore only emphasize the closing words of Hall and Soskice in their introduction to VoC (2001*b*: 68). They claimed, and the essays in this collection along with many others prove, that their volume was not an end point but a start—an invitation to a 'fruitful interchange among scholars interested in many kinds of issues in economics, industrial relations, social policymaking, political science, business, and the law'. This book, we hope, will become part of that ongoing discussion.

NOTE

1. The words in the text are John Zysman's, who echoed and inverted the phrase of Bob Dylan's 'My Back Pages'—'but I was so much older then, I'm younger than that now'—at one of the founding conferences of the project that led to VoC.