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CONVERGENCE AND DIVERGENCE IN ADVANCED CAPITALIST DEMOCRACIES

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Generic concepts such as market economy, capitalism, or democracy conceal as much as they reveal about the ways scarce resources and life chances are allocated in advanced industrial societies. One message the contributions to this volume bring across loud and clear is the need to pay attention to variation in institutional patterns of political and economic governance across wealthy Western countries. This is an insight that goes back at least as far as Shonfield's (1969) seminal study of the interaction between politics and economics in capitalist core countries during the decades of recovery after World War II. It is still true today.

For us, and for the contributors to this volume, however, the task of characterizing contemporary capitalism at the end of the twentieth century is more complicated than merely reaffirming cross-sectional patterns of political economic variation. Our most challenging task today is to determine how these patterns of variation, locked in through intricate pathways of industrialization and democratization, are shaped by growing global interdependence and domestic political and socioeconomic change. To what extent are capitalist countries and regions maintaining their "path-dependent" trajectories? Are there pressures toward greater institutional and policy convergence? And even if there are, are there also continuing and new sources of diversity? We want, in other words, to explore not only *how* the earlier diversity is, and is not, changing but also *causal processes* behind the emerging patterns.

In this conclusion, we draw on the contributions to this volume to offer an answer to these queries that marries continuity and change. There are undoubtedly trends toward convergence in advanced capitalism, but these do not rule out that regions and countries respond to such challenges in partially path-dependent ways. Traditional patterns of divergence are in decline. They are being modified and transformed through processes that reflect the sometimes competitive, sometimes cooperative, search among political actors within constraining institutional contexts for new solutions to old dilemmas: how to balance economic growth and income equality, how to assure political participation and government effectiveness. The result is a mix of convergence and new and old divergence.

All pathways that have been institutionalized in post–World War II capitalism exhibit signs of economic and political "disequilibrium": markets do not clear, economies grow too slowly, political conflicts sharpen and take on new, more volatile dimensions. And since leaving the "golden age" of sustained economic growth in the early 1970s, no pattern of democratic capitalism appears to have found a niche in which it has come to rest around a stable set of democratic class compromises similar to the divergent but relatively stable "postwar settlements" established in the first two postwar decades. As a consequence, our sketch of contemporary capitalist democracies does not outline some definitive picture of equilibrium institutions and policies in different countries. Rather it highlights still unstable, evolving features of partially path-dependent, partially converging trajectories, reflecting domestic institutional and policy responses to the present global political-economic conjuncture.

In order to sharpen our explanatory account, we begin with a simple model of institutional diversity among advanced capitalist democracies in the post–World War II era that draws heavily on the contributions by Soskice (Chapter 4), Golden, Wallerstein, and Lange (Chapter 7) and King and Wood (Chapter 13). Our initial account will be comparative-static and thus highlight persistence of institutional patterns more so than change. We then introduce several alternative conceptions of dynamic change in contemporary capitalism at the highly abstract level of theoretical models, settle in favor of one of the alternatives, and flesh out that model drawing on, but not confining ourselves to, the contributions to this volume.

POSTWAR PATTERNS OF VARIATION AMONG CAPITALIST DEMOCRACIES

In the "varieties of capitalism" literature, a vast range of typologies has been suggested, but we commit ourselves here to an adaptation of David Soskice's distinction between business coordinated market economies (CMEs) and liberal market economies (LMEs). In contrast to the political-economy literature of the previous decade, represented in Goldthorpe (1984), for Soskice it is not the organization of labor, but that of business which determines a country's or region's "type" of capitalism (cf. also Thelen 1994).[1] Critical to the distinction is the extent to which businesses coordinate their interactions primarily with spot-market contracts, or with mechanisms of generalized exchange or resource pooling and hierarchical coordination among firms and business associations. In coordinated market economies, employers are able to produce collective goods, such as basic research and technology, extensive human capital training systems, industrial standards, and even institutions designed to reduce uncertainties and costs of financing and investment. Little of this kind of coordinated behavior happens in LMEs.

Among CMEs, further differentiation is called for. Soskice distinguishes coordination at the industry or subindustry level (industry-coordinated market economies) in much of northwestern Europe from *keiretsu* or *chaebol*-type coordination among groups of companies across industries in Japan and Korea (group-coordinated market economies).[2] For our purposes, we will further subdivide industry-coordinated market economies into those with *national* concertation and those with primarily *sectoral* coordination. At least until the early 1980s, national concertation clearly set apart the Scandinavian countries from the primarily sectoral coordination of the "Rhine" capitalist European continent (e.g., Belgium, Switzerland, Germany). Both groups are set apart from the Anglo-Saxon world of competitive market capitalism where employers are rarely able to produce collective goods through horizontal or vertical coordination.[3]

[1] The focus on business rather than labor organizations helps us resolve "anomalies" in the characterization of such cases as Switzerland and Japan that evidently have weak and divided unions, but a great deal of nonmarket coordination with business, just as do some democracies with strong encompassing labor organizations. On the difficulties of labor corporatist characterizations of varieties of capitalism, see Soskice (1990a: 41–42).

[2] In our subsequent discussion, as in most of the essays in this volume, we do not extensively examine the group-coordinated market economies.

[3] As with all typologies, certain countries represent "mixed" cases and among those, France and Italy (between LME and industry-coordinated CME) are the most prominent instances.

The nationally concerted market economies are characterized by peak-level bargaining and coordination between hierarchical organizations of business and labor over issues ranging from wages and public policy to training and workplace organization. Government plays a distinct, if often indirect, role.

In the industry-coordinated market economies, the acquisition of occupational skills is effectively organized in companies or with strong company and union involvement in public schools. Unions combine workers mainly along industrial lines and play an important cooperative role in organizing working conditions within companies and in setting wage levels for the economy as a whole.[4] Both subtypes of the CMEs are to be contrasted with uncoordinated market economies in which training for lower-level workers is not undertaken by private business and is generally ineffective. Private-sector trade unions are viewed as impediments in employer decision making, have little role in coordinating their activities, and have little say in shop floor management.

Together, these divergent arrangements comprise a country's "production regime," a framework of incentives and constraints that is deeply embedded in a set of institutions that are relatively impervious to short-run political manipulation. These institutional frameworks can be seen as national/economy-wide, although with room for some sectoral variation (see Peter Hall's contribution in this volume). We are, furthermore, prepared to argue that the production regimes of different capitalist economies interact with, reinforce, and are reproduced by a variety of further organizational features and corporate actors. Following the lead of many contributors to our volume, we see an elective affinity between the types of production regime, patterns of socioeconomic inequality and protection through welfare states, and the constitution of corporate political actors in parties and interest groups.

ROOTS OF EMBEDDED DIVERSITY

A central theme of this essay is that existing, divergent "production regimes" strongly condition how national political economies are responding to the commonly felt pressures of internationalization and domestic socioeconomic change. In order to develop this argument, we need briefly to

[4] In the group-coordinated market economies of Japan and East Asia, initial training is handled within companies and leads to company-specific skills, and unions are organized along company lines.

review further the roots and nature of these embedded policy and institutional configurations.

From early on, liberal market economies were characterized by the absence or early abolition of guild systems (Crouch 1993) and the lack of severe sociocultural cleavages of a religious, linguistic, ethnic, or regional nature that in other systems furnished the communitarian alternatives liberalism and socialism. Historically, LMEs developed strong free-market-oriented liberal parties, and political struggle between politicians and parties in the emergent democracies became focused on distributive issues of property and income that divide occupational groups, sectors, and classes. In such a setting, the welfare state emerged as a compromise between group interests, but on liberal terms. This "residual" welfare state guaranteed citizens a means-tested minimum floor of protection from the risks of market society, but did not provide entitlement to earnings-related financial support of a particular social status and life-style.[5]

"Left" and "right" in LMEs thus became and still are primarily divided over economics. Because citizens' life chances are quite weakly buffered from the contingencies of the capitalist marketplace, the focus of the political agenda and the main lines of competition among parties was and has remained fixed on economic distributive issues, with few opportunities to politicize other institutional and cultural issues. Furthermore, more than in the other production regimes, values of individualism rather than forms of collectivism pervaded economic and political debate. In this sense, party systems reproduce a political discourse and map alternatives that closely interact with the political economic structure of LMEs and residual welfare states. The archetypical examples of LME-type capitalisms, welfare states, and party systems are Britain and, with some qualifications, the United States.

Australia and New Zealand – the Antipodes – fit less easily among the liberal market economies, although they have become much more like them in the past decade or so. Previously, while the organization of their firms, training systems, and the like resembled the liberal market model, their welfare state and especially their labor market regimes did not. They had highly regulated markets through compulsory arbitration and highly active labor courts, both of which tended to support considerable "decommodification" in the labor market and thus similar levels of social protection but by means different from those in the northern European CMEs.

[5] Our general argument about the relationship between production regime and welfare state is informed by Esping-Andersen (1990).

This explains, among other things, the wage dispersion figures for Australia and New Zealand in Table 15.2. This pattern was rooted in their heavy dependence on, and strong returns from, primary exports and willingness, in this situation, to protect uncompetitive manufacturing. In more recent years, in the face of declining primary-sector revenues, both countries have opted for openness and undertaken a dismantling of their systems of social protection. This, in turn, has led to a convergence of these countries toward the LME type (Castles 1985; Castles, Gerritsen, and Vowles 1996).

In contrast to LMEs, nationally coordinated CMEs have hegemonic workers' parties that emerged against the backdrop of later industrialization. They also have been and remain characterized by stronger nonmarket coordination, widespread collectivist and egalitarian principles, vertical integration in industry, and party competition in which a relatively unified left competes with a fragmented field of nonsocialist parties originally divided by the agrarian question. In this context, socialists could craft alliances with nonsocialist forces, such as the representatives of agrarian smallholders, in coalitions that committed themselves to comprehensive, redistributive welfare states offering high levels of income replacement in case of job loss and a wide range of direct and universally available public services. Here, as in LMEs, political competition focused on economic questions but with a strong commitment to collective solutions. In the 1970s and 1980s, however, the high level of economic security and the growth of public-sector welfare services have led to an increased emphasis on political and cultural divisions about gender, modes of political participation and cultural diversity. These divisions generated a left-libertarian opposition to social democracy, which, however, has done little to undercut the pivotal, hegemonic role of social democrats in the competitive party system. The prime cases of this configuration are the Scandinavian countries, above all, Norway and Sweden and, to a lesser extent, Denmark and Finland.

In sector-coordinated CMEs ("Rhine" capitalism), in contrast, the existence of cultural cleavages and the persistence of guild structures provided a nonsocialist and nonegalitarian but communitarian alternative to both liberalism and socialism, yielding tripolar party systems with secular liberals and socialists competing with religious "center" or "people's" parties. In this configuration, religion-based communitarian parties, particularly those associated with Catholicism, eventually succeeded in organizing a class compromise on their terms by becoming pivotal actors between market liberal and socialist camps. Rather than devising egalitarian, universalist, redistributive, or liberal-residual welfare states, the Christian democrats built status and group-based, segmented, but encompassing welfare

states as complements to a sector-coordinated economy. In the "Rhine" capitalist cases, social democracy was weakened by cross-cutting communitarian cleavages, but nonetheless exercised significant political influence within the system. The weakening of religious cleavages since the 1960s through secularization, however, did not benefit liberal and social democratic parties, but facilitated the rise of new cultural and communitarian conflicts between authoritarian and libertarian politics. Although such divisions flourish in most advanced welfare states, they are particularly encouraged by the political legacies of a communitarian divide between Catholics and liberals.

In a highly schematic way, Table 15.1 summarizes the interlocking of institutions and corporate actors in different modes of capitalism.[6] Beyond these very general qualitative differences between types of capitalism, Table 15.2 offers a variety of indicators illustrating the diverse shapes of welfare states and systems of organizing social inequality associated with each form of capitalism. In addition to the various financial measures of welfare effort (columns 1 through 4), we especially wish to highlight the varying degree to which social policy benefits depend on previous earnings (column 5) ("commodification" stands for high dependence of benefits on earnings) across the three types of capitalism with which we are most concerned and the great variation in income inequality (columns 6 and 9) associated with and, to a large extent, resulting from such patterns of social policy and wage bargaining. Moreover, public employment in social services is high only in the national CMEs (column 7), whereas sectoral CMEs surpass other countries in terms of transfers, most of which are earnings-related (column 3). Each of the groups of countries is also associated with a different party family as dominant governing party. In the nationally coordinated economies it is social democracy (column 10); in sector-coordinated economies, Christian Democracy (column 11); and in liberal market economies, secular centrist and conservative parties not listed in the table.

As Table 15.2 indicates, the sectoral CMEs of continental Europe are closer to the national CMEs on most economic and labor market indicators (wage dispersion, union contract coverage, degree of corporatism) than to the LMEs. They differ, however, in their welfare state patterns. Though both groups have generously financed welfare states, the Christian democratic welfare states are more transfer-intensive while the social democratic welfare states are more service-intensive. The Christian democratic welfare states rank between the social democratic and the liberal groups on redistribution and decommodification. The service intensity as well as the more

[6] We include the group-coordinated market economies for further comparison and contrast.

Table 15.1 *Types of capitalism and political organization*

Type of capitalism	Party system formats	Organization of the class compromise
Uncoordinated liberal market capitalism	Bipolar systems, divided by an economic-distributive cleavage	Residual welfare states, many means-tested programs
National coordinated market economies (labor corporatist)	Hegemonic social democratic parties and divided nonsocialist party camp; rise of left-libertarian and right-authoritarian parties	Comprehensive, egalitarian, and redistributive welfare states; high decommodification; direct public services
Sector-coordinated market economies ("Rhine" capitalism)	Tripolar party systems: liberal, Catholic, socialist parties; emergence of strong left-libertarian and right-authoritarian parties	Employment and income-related transfer entitlements, medium decommodification, few public services
Group-coordinated Pacific basin market economies	Hegemonic "bourgeois" parties; nonideological, clientelist party competition	Residual and paternalist welfare states

generous parental leave policy of the social democratic welfare state is related to the much higher level of women's labor force participation and much higher levels of public employment in Scandinavia as compared with levels on the continent. Not only are the public-sector jobs disproportionately filled by women, but some of the social services that they provide, most obviously day care, enable women to enter the labor force. All of these contrasts are related to the political underpinnings of the two welfare state types: social democratic hegemony in Scandinavia and Christian democratic dominance but significant social democratic influence in the sectoral CMEs of the continent (Esping-Andersen 1990; Huber, Ragin, and Stephens 1993; Huber and Stephens 1996a).

The differences in histories, institutional configurations, and policies discussed here are reflected as well in some illustrative data on economic performance. In Table 15.3 we have indicated mean unemployment and growth rates for each of the countries grouped by types for four postwar periods. The first observation about these data is that in the first three periods – through 1989 – the national CMEs did on average better than the sectoral CMEs and both did substantially better on average than the

Table 15.2 *Types of capitalism (circa 1980)*

	1 SS expenditure % GDP	2 Total taxes, % GDP	3 Transfers, % GDP	4 Civilian nontransfer expenditure	5 Decommodification index	6 Posttax transfer Gini	7 Public HEW employment	8 Female labor force	9 Wage dispersion	10 Left cabinet years	11 CD cabinet years	12 Agrarian cabinet years	13 Union density %	14 Union contract coverage	15 Corporatism
National CMEs, social democratic welfare states															
Sweden	31	56	18	45	39	.19	20	74	2.0	30	0	4	82	83	4
Norway	20	53	14	32	38	.23	15	62	2.1	28	1	1	59	75	4
Denmark	26	52	17	37	38	.24	18	71	2.1	25	0	6	70		3
Finland	17	36	9	28	29	.22	9	70		14	0	14	73	95	3
Mean	23.6	49.4	14.5	35.6	36.2	0.22	15.5	69.3	2.1	24.3	0.3	6.1	71.1	84.3	3.5
Sectoral CMEs, Christian democratic welfare states															
Germany	23	45	17	27	28	.25	4	51	2.7	11	16	0	40	76	3
Austria	21	46	19	28	31	.21	4	49	3.4	20	15	0	66	71	4
Belgium	21	43	21	28	32	.23	6	47	2.3	14	19	0	72	90	3
Netherlands	27	53	26	33	32	.27	4	35	2.2	8	22	0	38	60	4
Switzerland	13	33	13	15	30	.34	5	54		9	10	5	35	43	3
France	25	45	19	23	28	.31	7	54	3.1	3	4	0	28	92	*
Italy	20	33	14	29	24	.31	5	39	2.6	3	30	0	51		2
Mean	21.6	42.4	18.4	26.2	29.3	0.27	5.0	47.0	2.7	9.6	16.4	0.7	47.0	72.0	3.2
LMEs, residual welfare states															
Canada	13	36	10	29	22	.29	4	57	4.0	0	0	0	31	38	1
Ireland	19	39	13	36	23	.34		36		3	0	0	68		3
UK	17	40	12	28	23	.26	8	58	3.1	16	0	0	48	47	2
USA	12	31	11	17	14	.31	5	60	4.8	0	0	0	25	18	1
Australia	11	31	8	23	13	.29	7	53	2.2	7	0	0	51	80	1
New Zealand	16		15		17			45		10	0	0	59	67	1
Mean	14.8	35.3	11.5	26.6	18.8	0.30	6.0	51.5	3.5	6.0	0.0	0.0	47.1	50.0	1.5
Japan	10	28	10	22	27		3	54	2.8	0	0	0	31	21	*

Note: 1: social security expenditure, % GDP; 2: total taxes, % GDP; 3: transfer payments, % GDP; 4: civilian nontransfer expenditure, % GDP; 5: decommodification index (Esping-Andersen 1990); 6: Gini index of post direct tax, post transfer payment income distribution (Mitchell 1991); 7: public health, education, and welfare employment, % working-age population; 8: % of working-age females in the labor force; 9: 90/10 earnings ratio (Moene and Wallerstein 1996); 10: social democratic cabinet (Huber et al. 1993); 11: Christian Democratic cabinet; 12: Agrarian Party cabinet; 13: union membership, % of the labor force; 14: % of the work force covered by union contracts; 15: corporatism scale (Lehmbruch 1984).
*Concertation without labor.

Table 15.3. *Unemployment and growth*

	Unemployment				Growth			
	1960–73	1974–79	1980–89	1990–94	1960–73	1973–79	1979–89	1990–93
National CMEs, social democratic welfare states								
Sweden	1.9	1.9	2.4	5.2	3.4	1.5	1.8	–1.6
Norway	1.0	1.8	2.7	5.6	3.5	4.4	2.3	2.0
Denmark	1.4	6.0	8.1	10.9	3.6	1.6	1.8	1.0
Finland	2.0	4.6	5.1	12.3	4.5	1.8	3.2	–3.6
Mean	1.6	3.6	4.6	8.5	3.8	2.3	2.5	–.6
Sectoral CMEs, Christian democratic welfare states								
Austria	1.7	1.6	3.3	3.9	4.3	3.0	1.9	1.0
Belgium	2.2	5.7	11.3	10.7	4.4	2.1	1.9	1.2
France	2.0	4.6	9.1	10.6	4.3	2.3	1.6	.2
Germany	.8	3.4	6.7	7.8	3.7	2.5	1.7	2.1
Italy	5.3	6.3	9.3	10.6	4.6	3.2	2.4	.7
Netherlands	1.3	5.0	9.7	6.2	3.6	1.9	1.1	1.2
Switzerland	0	.4	.6	2.7	3.0	–.1	1.8	–.8
Mean	1.9	3.9	7.1	7.5	4.0	2.1	1.8	.8
LMEs, residual welfare states								
Canada	5.0	7.2	9.3	10.3	3.6	2.9	1.8	–1.0
Ireland	5.2	7.6	14.3	14.9	3.7	3.3	2.7	4.8
United Kingdom	1.9	4.2	9.5	8.4	2.6	1.5	2.2	–.3
United States	5.0	7.0	7.6	6.6	2.6	1.4	1.5	.8
Australia	2.0	5.1	7.5	9.6	3.2	1.5	1.6	.3
New Zealand	.2	.8	4.4	9.2	2.2	–.2	1.4	.6
Mean	3.2	5.3	8.8	9.8	3.0	1.7	1.9	.9
Japan	1.3	1.8	2.4	2.3	8.3	2.5	3.4	2.2

Note: Unemployment figures are percentage of the labor force unemployed. Growth figures are percentage annual increase in GDP.
Source: OECD, various publications, 1988–95.

LMEs. Second, there are some noteworthy within-group differences – for instance, Denmark's and to a lesser extent Finland's unemployment performance deteriorates more quickly than that of Sweden and Norway, in some ways "corporatist" Austria resembles Sweden and Norway more than it does the other sectoral CMEs, Switzerland is in some ways entirely distinctive, and, as we might expect, the Antipode countries look somewhat different from the other LMEs. Nonetheless, overall for these three periods, the similarities among the countries within each group and their differences from the countries in the other groups stand out.

In the years of the 1990s for which we have data, however, the clarity of these patterns is obscured. Average performance on both unemployment and growth degenerates across all the groups, but the rise of average unemployment is particularly striking in the national CMEs. The worsening of growth is also noteworthy – with the noticeable exception of Ireland – but here the extent of changes does not appear as systematic within groups. Perhaps most interesting for our current considerations, the differences between the groups in performance narrow. There is a degree of "convergence" in direction and degree of change and in the resulting level of performance regardless of type.

These brief remarks obviously do not exhaust all the interesting observations that could be made about Tables 15.1, 15.2, and 15.3. Moreover, we mention only briefly or ignore certain anomalies, such as Austria's resemblance to national coordinated systems on some of the policy and performance indicators, despite the fact that its Christian Democratic welfare state fits the pattern of the sectorally coordinated economies. France too, though listed in our sectoral CME group, differs from others in this group in the form of economic management in the golden age (far more statist than concerted) and in the weakness of its Christian Democracy (though not in Catholic political influence).[7] Nevertheless, our analysis drives home the point that there were rather robustly patterned differences among advanced capitalist democracies, if we take 1980 as the cut for our cross section, as in Table 15.2, or the years up to 1990, as in Table 15.3.

The question is, however, Did these differences endure? What has the past decade and a half, on which the contributions to this volume focus, taught us about the durability and adaptability of different forms of capitalism in the face of the effects of globalization and domestic socioeconomic change? The data on economic performance for the 1990s in Table 15.3 suggest that there may be significant changes underway. To address these

[7] We should also note, though we cannot dwell on, outliers such as Japan, which would merit close attention in a detailed analysis.

issues in a more systematic and comparative manner, we move on to a dynamic analysis of capitalist political economies after the golden age.

DYNAMIC CHANGE: CONVERGENCE, DIVERGENCE, OR RECONFIGURATION OF DIVERGENCE?

Our understanding of institutional change and convergence is generally more intuitive than systematic. We think we know what we mean by convergence but in fact several alternative understandings are possible. Institutions and policies could become more alike, for instance, by becoming more like those already in existence in one country, or they could all change to some new configuration. And when we speak of convergence, do we recognize it by similarities in the direction of movement (shared trends) or by a narrowing of differences, or both? In order to make sense of how the different types of capitalism have been changing since the 1980s, we need first to consider alternative ways of thinking about the pathways and the logic of institutional change.

The most common way to conceive of capitalist development is evolutionary and functional: to presume different regional and national historical starting points and then to argue that they are subject to pressures that reward the most efficient systems and penalize the rest. Such an approach stipulates that the growing relative importance of market exchange in allocation shifts resources to the most efficient patterns of corporate organization and government institutions across regions, countries, and sectors. Less efficient configurations are either adapted or eliminated. Such models of convergence assume an open global competition not only among goods and services but also among capitalist governance structures without protected niches. Under those circumstances, one general type of political-economic organization will prove to be superior and others are condemned to oblivion.

What is "superior" is not, however, agreed upon. In fact, evolutionary convergence models come in market-liberal, mixed, and socialist stripes. Liberals assume that political interference with market allocation is inefficient and countries that interfere the least with competitive markets will prove superior to their competitors. As of late, this view has again gained the upper hand in policy circles and is enshrined in the "Washington consensus" that economic growth requires domestic and international market liberalism.[8] At the other extreme, Marxist authors have assumed that

[8] For a critique, see Przeworski (1995).

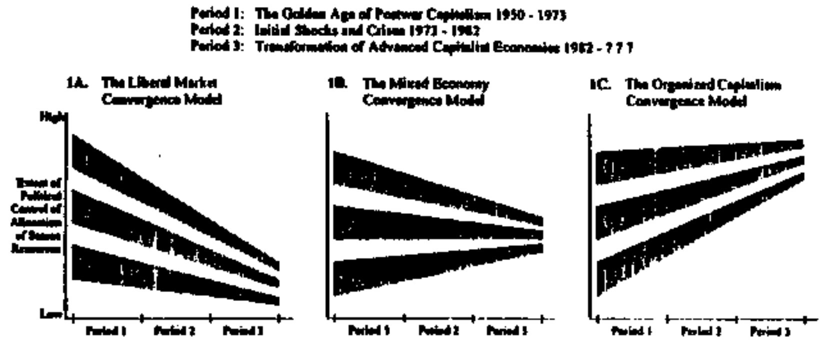

Figure 15.1. Simple evolutionary models of capitalism

technical and organizational imperatives of production will make nonmarket coordination through horizontal and vertical organization superior in efficiency to market exchange. The transition to organized capitalism is a step along the pathway to a socialist economy, but imbued with a contradiction between private relations of appropriation and collective relations of production (cf. Offe 1984). Between the liberal and Marxian alternatives, proponents of "mixed" economies in the 1950s and 1960s expected the evolution of a private market economy with state intervention through Keynesian demand-side policy, social policy, and a range of microeconomic supply-side interventions to create collective goods beneficial for economic growth. Sophisticated convergence theorists of this type, such as Shonfield (1969), allow for different, but "functionally equivalent," mechanisms to provide organized coordination in individual countries or regions.[9]

The simple models are schematically illustrated by Figures 15.1A through 1C. The horizontal dimension represents the time line, the vertical dimension the degree to which the allocation of scarce resources is determined "politically," broadly understood, or via the market. The "political" dimension aggregates direct state control of the economy (i.e., the scope of state ownership of productive resources and the extent to which state actors are guided by criteria other than profitability in allocating those resources); indirect state control of the economy (i.e., the extent of state intervention in markets via subsidies, taxes, and regulations); welfare state intervention (i.e., the extent to which the state decommodifies labor and redistributes life chances); and labor market organization (i.e., the scope and intensity

[9] Of course, Shonfield does not predict a final convergence of all capitalist democracies on functionally equivalent organizations, although he is convinced that only countries that follow the imperatives of a mixed economy will perform well in terms of growth and full employment.

of collective versus market allocation in determining conditions of work). In each model we depict three "streams" of evolutionary adaptation that begin with different institutions and factor endowments. Type 1, the model of the initially most organized, represents political economies with centralized national coordination (e.g., Scandinavian corporatism); Type 2, the intermediate "social market" economies, that is, the decentralized form of coordinated economies via sectors (e.g., "Rhine" capitalism); and Type 3, the uncoordinated liberal market economies (e.g., Britain). Each model then depicts different anticipated pathways of adaptation over time.

The three models illustrate different types of convergence. We would argue, however, that convergence of modern political economies on a uniquely superior model of markets and collective decision-making institutions is theoretically and empirically implausible for at least five reasons. First, international competition, even in a world with falling costs of transportation and communication, remains imperfect. There are still plenty of niches and local production regimes that are sheltered from international exposure. Second, the effects of economic internationalization on domestic economies will differ depending on the prior mix of economic factors and resultant economies of scale within a particular society. As Oliver Williamson (1985) has argued, even in open competitive markets, different production systems may gravitate toward different organizational "solutions," combining diverse mixes of spot-market transactions and horizontal and vertical organization. Thus regions and entire countries generally specialize with regard to their "portfolios" of production regimes, and it is, therefore, likely that the institutional makeups of such entities will systematically vary across time and space. What is more, in light of existing institutional structures and comparative advantages, the choices of new and the updating of existing production regimes may be endogenous: countries, regions and sectors primarily pick areas of economic activity and will specialize in markets that are compatible with their existing institutional and factor endowments.

Third and relatedly, common international competitive pressures are likely to be perceived differently by actors in different institutional settings. The range of credible responses to a given set of problems will be interpreted in light of past experiences, existing problem-solving techniques, and cognitive focal points (precedents, models provided by neighbors, etc.) that are in part endogenous to the institutions that govern the actors' capacities to process information and problem-solving ideas. In other words, each set of institutions and actors has its own "bounded rationality" by means of which it comes to terms with new challenges and uncertainties. One would, therefore, expect divergence to be sustained, even in the face of similar challenges.

Fourth, the pervasiveness of international economic pressures as a source of convergence is determined by the willingness and the capacity of individual governments and regional regimes to liberalize. The level of economic internationalization is produced collectively by governments and geopolitical regimes having widely divergent preferences and institutional capacities concerning the elimination of tariff and nontariff barriers. Thus, adaptation patterns are a function not only of economic and organizational logics but of explicitly political ones as well.

Fifth, and perhaps most critically, the impact of international competition on domestic policy and institutions is refracted by the domestic status quo – that is, by the relative strength and organizational capacity of producer groups, the configuration of political parties, electoral rules, executive-legislative relations, the capacity of the bureaucracy and the administrative territorial stratification of the state (cf. Garrett and Lange 1996). Rather than treating institutions only as a "dependent variable" forced to change in light of new challenges, we must recognize that they are a critical component of the environment in which actors shape their strategies of adaptation.

These five arguments have two implications. On the one hand, a great deal of comparative research on industrial production regimes and institutions, here represented by Hall and Soskice, has found that different countries and regions do well with different production regimes.[10] There is not likely to be a uniquely satisfactorily efficient adaptation. On the other hand, even if a possible adaptation is more efficient, this does not guarantee that it will be chosen. Institutional structures may promote successful resistance to adaptation to efficient organization because such changes would have negative distributive consequences for actors with strong influence in an existing system of institutions. In other words, even if there are potential Pareto-improving reforms, these may not be undertaken because the transaction costs involved may be greater than the benefits of change for any actor or the dominant set of actors.[11] In sum, for economic, organizational, and political reasons, it is unlikely that convergence will occur around any unique production regime and related configuration of social and political policies and institutions.

In light of these considerations, is it possible to specify, in general

[10] For this argument, see especially Michael Porter (1990) and – based on a theoretical synthesis of organizational contingency theory and the new economic institutionalism – Kitschelt (1991a).

[11] The standard scenario for this is when technological innovation (Arthur 1994) or institutional choice (North 1990) is characterized by increasing returns to scale, which result from some combination of large fixed costs, progressive learning effects, reinforcing coordination effects, and adaptive expectations.

terms, the conditions under which we would expect the policies and institutions of the advanced capitalist societies to have grown more similar to each other? Consistent with an institutionalist approach, we would expect convergence to become more probable when, in the face of similar challenges, the relevant policy or institution is less closely tied to deeply embedded other institutions, less determined by deep-seated beliefs and when its specific features are less critical to the returns of the assets of powerful actors. More generally, where institutions are flexible, outcomes will be closer to a simple vector outcome of current power relations. Where institutions are embedded, path dependence is greater: outcomes reflect not only adaptive pressures but also the influence of power relations at the time of institutional formation (cf. Knight 1992).

A simple but elegant example of how preexisting institutional arrangements determine the effect of common exogenous challenges is the influence of the Ghent system of unemployment provision in explaining the growing divergence in levels of unionization as described by Golden, Wallerstein, and Lange in their chapter. As Rothstein (1992) has shown, the Ghent system, under which unions are responsible for the administration of unemployment insurance, creates selective incentives for union membership and helps account for high levels of union density in countries in which it is present (Sweden, Denmark, Finland, and Belgium). As a result, the rising levels of unemployment across most of the advanced industrial democracies of the past two decades have had opposite effects on union membership in countries with the Ghent system and those without. Membership has risen in the Ghent countries, declined in the others, thus increasing existing differences in union density. Different patterns of change in density, in turn, influence union strength and thus the types of adaptations that employers can either impose or bargain for in response to new conditions in the domestic and international marketplaces for their goods.

We can now return to our general models of conceptualizing change in the political economies of advanced capitalist democracies. To do so we need first to recognize that there are at least three distinct historical periods in the post–World War II development of advanced capitalist democracies. Each of these represented a distinct "environment" that posed unique challenges for the choice and adaptation of political and economic institutions. There is considerable agreement on what happened in the first two environments, but disagreement on developments that are unfolding in the current third one. The first was the golden age of reconstruction from the eve of World War II until the collapse of the Bretton Woods currency system in the early 1970s. In this period, nationally different class compromises were crafted and growth models institutionalized along the lines we have sketched in the previous section. (For periodization, see data in the chapter by Stephens, Huber, and Ray. See also Keohane and Milner 1996.)

Second, in the subsequent decade from the economic recession precipitated by the first oil crisis 1973 to the end of the second oil crisis in 1982, and including the shift to international monetary restriction, existing growth regimes were disrupted, but governments generally responded by incremental "muddling through." In practice, this meant that most of the same policy instruments, policies, and institutions that had been enlisted during the golden age to enhance economic performance were employed to fight the new ills of inflation and unemployment. The difference was that often governments attempted to overcome the new challenges by applying even stronger doses of the old cure. By the beginning of the third period in the early 1980s, such trial-and-error incrementalism had run its course. Responding to domestic and/or international pressures, many governments undertook more radical departures from established policies and practices.

The current debate within comparative politics and political economy is less about the extent of such shifts than about their direction and the mechanisms that underpin them: are they governed by a logic of convergence, driven by a growing scope and increasing depth of international competition and the search for the unique, functionally superior set of policies and institutions, or by a logic of "refracted divergence" in which some of the past patterns of diversity disappear, are replaced by new ones, reflecting institutionally mediated responses to the challenges posed by the new environment? With some simplification, these theoretical rivals are depicted in the models of Figure 15.2A and 15.2B. In both, the golden age is characterized by persistent divergence of all three types of capitalism, but also by gradual shifts toward an increasingly "organized capitalism." In other words, divergence prevailed in terms of the *level* of political allocation of scarce resources, convergence in terms of the *trend* toward greater political control over market outcomes (Shonfield 1969). In a similar vein, both models depict increased path-dependent policy experimentation in the second period. Countries with more organized capitalism, such as the national CMEs (Type 1), reinforce their efforts to organize their economies. In contrast, countries with comparatively little organization, the LMEs, begin to withdraw from state organization ("regulation") and attempt to reinsert more competitive market relations.

The disagreement between the two models involves the third period. According to the "neoliberal" model (2A), all types of capitalism are now being subjected to strong forces that yield a reassertion of market relations in areas previously dominated by nonmarket institutions (labor relations,

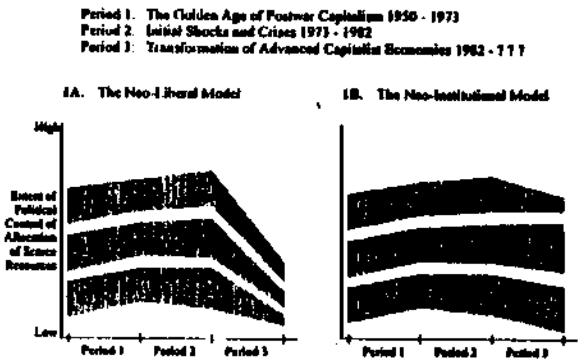

Figure 15.2. Neoliberal and neoinstitutionalist models of capitalist change

finance, business associations, training, and research and development), regardless of the type of capitalism at the beginning of the period. This neoliberal convergence model therefore ignores all or most of the sources of institutionally rooted variation that may blunt or refract pressures toward evolutionary convergence.

The rival "neoinstitutionalist" model, which we will defend in the remainder of this conclusion based on evidence provided by the chapters in this volume, maintains that institutional divergence has a tendency to persist and to reconstitute itself. We argue that there has been a clear tendency for *national* CMEs to converge toward the sectoral CMEs, and that the latter are being reconfigured to meet contemporary political-economic challenges. This process of change, however, is not leading to convergence between the coordinated and liberal market economies. The more organized market economies remain organized, interventionist, regulatory, and socially supportive, and they continue to seek to manage adaptation through cooperation and concertation among collective organizations and governments. The liberal market economies are becoming even more liberal, with a weakening of social supports and an increased emphasis on individual merit and markets. Furthermore, both the emerging CMEs and LMEs continue to be exposed to new challenges and to experiment in the face of policy and institutional failures. They remain in some flux. This cautions against any claim to being able to identify the nature of the ultimate "equilibria solutions" to the contemporary problems of policy and institutional adjustment.

Our schematic diagrams concern development within the political economy. Developments within politics proper – parties, party systems,

political behavior, social movements, and the like – covered in this volume and related works cannot be so easily depicted.[12] Nonetheless, we do find similarities between the developments in the political economy and the polity more narrowly defined. First, as we will point out, technological change has been one root cause of the long-term secular changes in both arenas. Second, the institutional continuity (e.g., in labor market institutions, in party strengths, etc.) within both spheres is impressive, especially given the magnitude of changes in the environments of these institutions. Third, the political institutions and processes, like those of the political economy, have undergone a refractive process in which similar exogenous developments lead to different outcomes depending on the differing preexisting institutional political configurations of the countries.

SOURCES OF CONVERGENCE ACROSS DIFFERENT TYPES OF CAPITALISM

In this section and the next, we move from theoretical models of convergence and divergence and the possible mechanisms that might underlie patterns of change to look more closely at the empirical phenomena that characterize recent developments in the advanced industrial democracies. We do so drawing on evidence from the various chapters in this volume as well as other sources. We treat first the international and domestic factors that appear to create similar pressures for change.

While technological determinist thought in sociology, ranging from Marxist to "logic of industrialism" theories, now has few proponents, technology does drive many of the transformations common to the advanced industrial democracies in the past thirty years. New production technologies, and the electronic revolution in data processing and communications underlie broad changes in production systems, such as the shift to "flexible specialization." They are also the source of changes in occupational and social structures, including the decline of the proportion of the labor force engaged in farming and blue-collar manufacturing, the increase in the share of professional and white-collar employment, the decline of semi-

[12] Among other things, while the single dependent variable (political control of the economy) and thus the single vertical axis in our graphs was already a simplification in the case of the political economy, it would be impossible to summarize developments in the polity in neat graphic format as there is no plausible candidate for a single dependent variable.

skilled assembly line work, and the increase of differentiated skill diversified quality production work. They also promote rising levels of education and changing demographic structures.

Beyond the changes induced by technological trends in many areas of manufacturing and service, the exposure of a growing number of economic sectors to international competition has also led to common pressures on advanced capitalist democracies. Declining costs of transportation and communication, together with the rise of newly industrializing countries primarily in the Far East, have imposed unprecedented financial pressures on the production and employment systems of Western advanced capitalist countries. Although trade openness has been a mark of the post–World War II period from its inception and, as McKeown points out, merchandise exports from the advanced industrial countries are now not considerably higher as a percentage of GDP than they were before World War I, the rising competitiveness of comparatively low-wage countries in sophisticated goods is a qualitatively new development that has affected Western countries since the beginning of the 1980s at the latest.

Finally, and probably constituting the greatest international challenge, the growing internationalization of finance in the 1970s and 1980s has made private capital far less "national" and far more willing to seek out the most profitable opportunities wherever they may arise in the international economy. This has led to an overall shift in bargaining power from labor and political parties to private capital, and within private capital from sheltered domestic producers to international capital. As a result, governments have come under increased pressure to institutionalize and deepen liberal trading regimes at both a global and a regional level (see Hooghe and Marks, this volume). Domestically, business has been more willing and better able to challenge existing basic frameworks of industrial relations and to seek to restructure "class compromises" to its advantage. Taken individually, the changes in technology, trade, and money are not entirely new, as Simmons emphasizes, but their pace and the fact that they are occurring simultaneously is unprecedented.

The three common technological and global economic trends have provoked changes in the occupational structure and distribution of remuneration in advanced industrial democracies. First, in the face of low-wage competition, production has increasingly shifted to types of goods and services that depend on highly trained technicians and professionals rather than unskilled and semiskilled workers. Second, the personal-service sectors that create and restore human capital – education, retraining, health care, social counseling – have experienced major growth in demand and employment. Together these changes have led to an increasing centrality of white-

collar, trained, service-sector workers in the economy and polity and to pressures toward increasing income inequality between the skilled and less skilled.

The common technological and international economic changes, and their domestic consequences for the structure of jobs and pay, leave their mark on politics as well, affecting both how popular interests are articulated and the values that are expressed. A better educated population, on average, is better informed about politics and more inclined to discriminate among political representatives based on their issue positions. This, in turn, has complicated party competition and opened the way to a greater role for interest groups, social movements, and forms of direct representation. Traditional hierarchical vehicles of interest intermediation, such as milieu-based mass parties, either decline in favor of parties that mobilize voters around more specific issue packages or must change their strategic appeals and the nature of their linkages to the citizenship. At the same time, interest groups and social movements that seek their competitive advantage by promoting single issues or a narrow range of concerns become more attractive than parties that make encompassing claims.

These developments are reinforced by a differentiation of citizens' preferences. High education and growing employment in personal-sector symbol and client-processing jobs have increased the demand for libertarian, participatory institutions and cultural policies among those benefiting from the economic changes under way, but have also contributed to a backlash of authoritarian, xenophobic, and racist currents among those who are the relative losers in the restructuring of the labor force. Esping-Andersen, Kriesi, and Kitschelt throw light on different facets of these developments in their contributions. Moreover, these trends raise questions of gender in economic, social, and cultural policy arenas, although these are often, as Klausen demonstrates, mediated by the existing institutional filters of interest intermediation.

These general tendencies in citizens' political demands and involvements make democratic party politics considerably more open and competitive. The parties most likely to suffer from such developments are the large "milieu parties," whether in social democratic or Christian democratic guise, a development discussed in the contributions by van Kersbergen and Kitschelt. Even though devout Catholic voters and unionized skilled blue-collar workers may be almost as likely to vote for their milieu parties today as they were a generation ago, social change has made such voter groups a much smaller portion of the electorate and thus less critical in the electoral game. Parties cannot afford, therefore, to confine their appeal to such "regulars" with high party identification. Under certain political conditions, milieu parties can fight back by shaping new voter coalitions that include constituencies mobilized by new demands and more willing to shift their electoral support from one party to another. But such strategies involve trade-offs and strategic dilemmas that precipitate substantial changes of party systems. The patterns of party competition and political representation characteristic of the golden age, and even more the underlying mechanisms which reproduced them, are giving way to a more fluid, less predictable, and possibly more volatile politics of representation.[13]

Altogether, then, there are powerful economic, social, and political pressures for change to which all the advanced capitalist democracies are exposed. Nevertheless, these need not lead to convergence, much less the neoliberal version of convergence theory. The neoliberal theory that competitive markets are superior to nonmarket institutions everywhere and under all circumstances and that they can, therefore, be expected to be chosen is, as we have sought to suggest, both simplistic and misleading. First, the supposed superiority of one political economic model ignores the diversity of existing production regimes and the implications of this diversity for the efficiency of particular institutional configurations and for the costs and possible benefits of change.

Second, it ignores the *politics* of political economic change. The existing diversity of production regimes implies different distributions of socioeconomic and political power among actors with different stakes in current and possible alternative political-economic policy and institutional configurations. It also ignores that governments themselves may have differing links to sectors of the population and different capacities to enact changes that, even if beneficial in the longer term, may be politically costly in the short run. In fact, implications of the recent political changes discussed here are that governments may have shortened time horizons because they need to pay more heed to a volatile, "dealigned," public opinion and that political conflict over changes toward a more "liberal," free-market-oriented political economic policy may become *more*, not less, intense because there is increasing separation between the winners and losers of the political economic changes underway. Thus, existing institutional conditions and their interaction with actors' preferences are likely to continue to reproduce divergence in political economic policy and institutions even in response to similar challenges.

[13] To date the increasing volatility of voter preferences at the individual level has not been reflected in significantly increased fluctuation in aggregate levels of party support, especially in the Catholic parties, although there have been large changes in some countries (e.g., Italy).

THE CONTINUATION AND TRANSFORMATION OF DIVERGENCE AMONG CAPITALISMS

Both economic and political arguments support the expectation of continued, if altered, divergence in political-economic policies and institutions among the advanced industrial democracies. In this section we demonstrate that this is the case, drawing both on our earlier discussion of the theoretical reasons why divergence might be expected to continue and on the chapters in this volume.

The first, and often neglected, source of divergence is the role of politics in the determination of the rate and extent to which internationalization has been affecting any individual country. As McKeown, Simmons, and Hooghe and Marks all point out, the road to economic internationalization has been paved by government decisions, and while some of these appear to have been inescapable sacrifices of national economic sovereignty, others were made to serve immediate national economic purposes. It is, in other words, misleading to conceptualize international market engagement solely as an external force shaping individual countries, for it is at the same time a construction of domestic political decisions.[14] There appears, however, to be a reinforcing causality here that sustains the illusion of the inevitability of the intensification of international market engagement. Market liberalization increases the political power of mobile, relatively abundant factors of production that press for further liberalization, and it reduces the political power of immobile, relatively scarce factors of production that are opposed to further liberalization.[15]

This logic is seen most transparently in the European Union which, as Hooghe and Marks argue, is both an emergent polity and an international market. Labor, the quintessential immobile factor of production, has little voice and less power at the European level; capital, and particularly the most mobile elements of capital, are there in force. Thus, the causal link between internationalization and liberalization is in part a product of the shift in power relations between labor and capital, and the liberalization process further reinforces that power shift. While this shift is almost certainly going on in all the advanced industrial democracies, it is not neces-

[14] It is, in part, because of the political determination of "openness" that the extent of internationalization in goods and capital markets varies considerably across countries and across time.

[15] Note that this is abundance-scarcity relative to other countries with which the country in question is experiencing increasing economic integration. Thus, capital is abundant in Germany relative to Portugal.

sarily doing so at the same rate or to the same extent. Furthermore, the responsiveness of governments to the winners and losers from internationalization is likely to vary over time. There is, therefore, no necessary reason to assume that the current cross-national trend toward greater openness will continue or be the same across all countries (Rodrik 1996).

If the rate and even direction of internationalization is subject to diverse pressures, there is also no reason to think that traditional mechanisms of domestic market regulation necessarily must give way to "liberal" principles. For much of the postwar period, intervention into markets by the state or unions, as practiced in Scandinavian social democratic production regimes, was consistent with efficient production and world market competitiveness. There was, therefore, no fundamental reason to abandon such institutional arrangements (Moene and Wallerstein, this volume). Likewise, the financial controls that were the prerequisite for the supply-side credit and investment policies of Nordic and Austrian social democracy were very effective in producing growth and employment (Stephens, Huber, and Ray, this volume; also see Huber and Stephens 1988; Mjøset 1986, 1987; Vartiainen 1997a, 1997b).

These experiences suggest that there is no reason to believe that free-market arrangements nowadays are clearly superior, under all domestic production conditions, to more regulated and interventionist production regimes, even though the latter may be undergoing change away from the traditional national CME, Scandinavian model. Instead, the essays in this volume suggest that while the Anglo-American LMEs may be *a* model of economic efficiency, they are not *the* model: other models of capitalist self-organization may have equal or higher capacity to produce efficient results, contingent upon the profile of industries and institutions that characterize the endowment of a region or a country.

Why is this the case? In the first place, the *resource endowments of countries and regions* vary. As a result, efficient institutions differ across sectors, regions, and countries. Whereas some economic branches and sectors are organized better by liberal market institutions, others benefit from non-market horizontal and vertical coordination. As a further consequence, different endowments may lead to variance in the pressure the joint forces of technological change, internationalization, and different patterns of citizens' political mobilization and orientation impose on strategies of domestic adaptation.[16]

[16] Here one could also accommodate Pontusson's (1995) argument that sometimes industrial structure by itself is a trait that accounts for varying political forms of interest organization.

Given contrasting national economic governance structures and sectoral portfolios that shape the extent to which employers invest in labor force training, therefore, one would expect that economic internationalization would have sharply contrasting effects in different types of economies. In his contribution, McKeown argues that increasing economic openness tends to equalize the return to each factor of production irrespective of territorial location, but in doing so will actually increase diversity across countries to the extent that their initial factor endowment varies. Hence, economic internationalization should reinforce, rather than moderate, differences between CMEs in which employers are induced to train their labor force and LMEs in which the labor force is on average relatively less skilled and where the distribution of skills is more bifurcated.[17] An implication of this is that the movement toward economic integration in Europe and in North America may exacerbate rather than moderate wage dispersion across the member states if divergent economic governance structures are sustained.

The preceding arguments suggest that the European CMEs as a group are extremely unlikely to converge on the Anglo-American LME pattern. Indeed, the continental sectoral CMEs have been least affected by the long-term changes and post–Bretton Woods shocks laid out earlier. By contrast, these structural changes have had major effects on Scandinavian national CMEs. As the contributions by Moene and Wallerstein and Stephens, Huber, and Ray argue, these changes, above all the changing occupational structure and the internationalization of financial markets, have been the primary root causes of the movement in these countries toward less centralized bargaining, growing wage differentials, higher equilibrium unemployment, and less decommodifying social policy, which in every case moves the Nordic countries in the direction of the sectoral CMEs.

Persistent variation in advanced capitalism also has to do with the *organization of collective labor market participants*. Golden, Wallerstein, and Lange demonstrate in their contribution the tenacity of established formal institutions of collective bargaining across a wide range of European countries. The evidence about the formal organization of labor unions and collective bargaining disproves the common wisdom that unions and their role in economic and labor market policy making are declining, although the authors cannot rule out that de facto power in wage bargaining and work conditions has declined and/or shifted to more decentralized levels in

[17] Note that the other side of McKeown's point, that wage dispersion should increase within countries, holds not only for the LMEs mentioned earlier but also for the Scandinavian countries since 1980, reversing a postwar trend in the latter cases.

many countries. Nevertheless, the authors' figures on union density show persistent variance across countries and no general trend over time. If anything, dispersion has increased, with high-density countries increasing unionization while low-density countries fall further behind.[18] Countries respond with different trajectories of change to apparently similar structural socioeconomic trends and international pressures.

The power of unions still constrains the capacity of business to adopt new production regimes. The presence of strong unions in the export sectors of CME economies and of generous welfare states funded in part by employer contributions makes it difficult to move toward a liberal market economy. The economic and political costs of change in the direction are almost certainly high and the benefits doubtful. As Golden, Wallerstein, and Lange show, in all of these countries coverage of labor contracts is broad, either because union density is very high, as in Scandinavia, or because union contracts are extended to the unorganized due to some combination of strong employer associations, sectoral or wider collective bargaining, or legal arrangements of the labor relations system.[19] In addition, generous welfare states also limit the development of a subpoverty-wage service sector along American lines. The lower levels of wage dispersion within manufacturing in both groups of European CMEs shown in Table 15.2 is almost certainly at least in part a product of the absence of low-wage production. As Moene and Wallerstein point out, employers as well as workers benefit from lower wage dispersion, for it promotes productivity growth.[20]

The *political actors*, particularly the parties and party systems, and the *formal political rules* that are in place in different countries also reinforce the probability of continued divergence. Numerous observers have found that parties maintain their labels – Christian democrats, social democrats, or liberals – but change their programmatic appeals and electoral coalitions that support them (Mair 1993; Kitschelt 1996). For this reason, the extent of social structural change often greatly exceeds the degree of change in party support, as indicated by Esping-Andersen, Kriesi, Kitschelt, and van

[18] See the earlier discussion of the Ghent system.

[19] See Figure 7.1 in Golden, Wallerstein, and Lange. Among the LMEs in the lower-left-hand corner of the graph, contract coverage closely follows the level of unionization, which is not true of European CMEs.

[20] As they also point out, these productivity effects only hold for the earlier type of solidaristic wage bargaining in Scandinavia (i.e., compression of interplant and interindustry wage differentials among workers with equivalent work tasks). The second type (compression of intrafirm wage differentials among workers with tasks requiring different levels of skill and education) has harmful effects. See Hibbs and Locking (1995) for empirical evidence supporting this for the Swedish case.

Kersbergen. Large changes in the class structure, especially at the level of class formation, and declines in class voting are accompanied by relative resilience of the leftist vote. Secularization has been accompanied by modest declines in the Christian democratic vote. Rising education and affluence and the growth of public-sector, symbol-, and client-processing occupations have led to the growth of postmaterialist values in all advanced capitalist societies, but the electoral strength of environmental and new leftist parties is small by comparison and varies greatly across advanced capitalist democracies. Nevertheless, new parties may make inroads, because the existing parties cannot span too diverse a set of constituencies. This process accounts for the rise of both parties of the libertarian left and parties of the authoritarian right.

The nationally unique structures of party competition help or hinder the capacity of countries to move toward liberal market economies. Particularly the absence of nonsocialist Catholic-communitarian parties and the clear-cut bipolarization of political competition around two large, relatively coherent liberal-conservative and socialist blocs has facilitated the adoption of radical market-liberal policies. As the examples of Britain, Australia, and New Zealand show, even formally leftist parties may eventually be compelled to embrace much of the market-liberal program in order to remain a viable political competitor, once conservatives set the economic policy agenda in an environment of increasing international competition. In contrast, in countries with Catholic-communitarian "center" parties and/or diverse, fragmented nonsocialist parties, it is much easier for social democrats to continue to craft policy alliances that resist a wholesale adoption of liberal market capitalism.

Going from the level of party system to that of party organization, mass-party organizations and networks of clientelism tend to constrain the strategic flexibility of parties when faced with new challenges. As Kitschelt argues, mass-party organization with an encompassing membership and accountable leaders may have helped social democratic parties in the days of frozen party cleavages and relatively immobile electorates. But in the current more turbulent context of more volatile popular preferences and new challenging parties, mass organizations impede the filtering through of new demands. Moreover, leadership accountability constrains strategic flexibility and makes parties less competitive. Thus, in Britain, a Labour Party executive stacked with leftist members could hold the parliamentary leadership hostage and compel it to pursue electorally losing appeals for close to a decade. The party did finally reform its leadership, program, and organization in the 1990s, but it took a string of consecutive electoral defeats to galvanize institutional change.

The policy malleability of competitive democracies is affected not only by parties, generally the key political actors, but also by the formal constitutional rules under which governments operate. Unitary government, the territorial concentration of power at the national level, unicameralism or weak bicameralism,[21] strong parliamentary or presidential leadership, and plurality voting systems increase the ability of the sitting government to press through reforms, either of market-liberalizing or interventionist variety. In contrast, a multiplication of veto points through federalism, strong powers of local government, strong bicameralism, weaker executive leadership, and systems of proportional representation or single-member district majority election (and hence often more fragmented party systems) impede reform (Huber, Ragin, and Stephens 1993; Garrett and Lange 1996).

In their comparison of the United Kingdom and the United States under neoliberal governments, King and Wood show that market reforms had to traverse very different political institutions with sharply contrasting degrees of centralization. The unitary character of the British polity allowed wide latitude for Prime Minister Thatcher to shape local political institutions and shift decision making from the state to the market. In contrast, the dispersion of authority in the United States, among institutions in Washington, D.C., and between Washington and the states, limited the capacity of the Reagan administration to reshape American political economy. The comparison is revealing because, as King and Wood emphasize, other aspects of these societies, including their uncoordinated market economies and the ideological orientation of these governments, were similar.

The interaction of constitutional arrangements with the partisan composition of government in producing or impeding radical market-liberalizing reform can also be seen if one extends the comparison to the Antipodes. The most radical changes, particularly in the area of social legislation, occurred in New Zealand (as in the United Kingdom). These reforms were carried out by conservative governments in political systems, which concentrated power in the government due to the absence of federalism, the limited number of veto points (strong upper house, presidential veto, unitary government, judicial review), and the existence of single-member district plurality systems which greatly overrepresent the largest party in parliamentary elections.

By contrast, in the Australian case (and in New Zealand before 1990),

[21] According to Lijphart's (1984) definition, bicameralism is "strong" when both chambers have equal powers and they are elected on the basis of different criteria.

a Labor government carried out extensive labor market deregulation, which, according to many social democratic analysts such as Castles (1996), was an essential adaptation to the new international economic conditions, but which greatly increased wage stratification and the proportion of subpoverty wages in the country (see Stephens, Huber, and Ray). However, in contrast to the other two countries, the Australian government, in a compact with the unions (the "Accord"), passed compensatory social policy in an attempt to cushion the transformation. A prime example of this is the family allowance for the working poor, which not only is compatible with the development of a low-wage sector of the economy but might even encourage it by in effect subsidizing such jobs. Nonetheless, it does help cushion the impact of the change on the working poor.

In his chapter, Kriesi argues that the repertory of a new social movement reflects the particular structure of political opportunities with which it is confronted. Such opportunities are a function of the institutional structure of the state and the response of established political elites. In exploiting political opportunities, social movements adapt symbiotically with their institutional context. Kriesi observes that the sources of mobilization for movements of the left and right are common across Western societies, yet because political structures and elite responses vary across France, Germany, Switzerland, and the Netherlands, one finds concomitant variations in the strength and activities of new social movements.

Intimately linked to the types of capitalist resource endowment, the configuration of collective actors in the labor markets, and the systems of party competition is an additional force for persistent diversity in advanced capitalist democracies, that of *welfare states and social policy*. Many comparativists have demonstrated how different patterns of welfare states and social policies result from power struggles and political institutions that help or hinder the realization of redistributive economic policy objectives and the protection of the weak from the vagaries of the labor market. As King and Wood and Stephens, Huber, and Ray in this volume show, the process of institutional refraction in response to common technological and international challenges can be observed also with regard to the divergence of social, labor market, and economic policies. Most of the liberal market economies (the United Kingdom, the United States, Canada, Australia, and New Zealand) have deregulated labor markets and rolled back the welfare state (King and Wood; Stephens, Huber, and Ray). As King and Wood argue, this was an intentional attempt to compete internationally on the basis of low wage costs. It is telling in this regard that the areas of social policy that suffered the greatest rollback were precisely those in which motivation to work at low wages was at stake. Thus, replacement rates in unemployment insurance and sickness pay were cut, qualifying conditions were tightened, and, in the case of unemployment insurance and social assistance, work requirements were introduced or tightened. By contrast, pension entitlements and replacement rates suffered little. In all five countries, the "reforms" either created a dualist economy with a low-wage, low-skill, largely nonunionized sector or reinforced the preexisting dualist pattern.

As other studies of welfare state retrenchment have shown (Pierson 1994), producers and consumers of welfare state services become the strongest defenders of the status quo and the most powerful agents of resisting cutbacks, regardless of the configuration of external political actors. Thus, sedimented class relations articulate themselves in welfare states and affect trajectories of social reform. This provides another reason for the continued distinctiveness of Nordic social policy and welfare states that employ a large share of the female labor force in social services. Esping-Andersen (1990; also this volume) and Stephens, Huber, and Ray emphasize the distinctiveness of the tremendous growth of public-health, education, and welfare employment in the social democratic welfare states and its consequences on economic redistribution and political power relations. Both as producers and consumers, women have the greatest stake in such welfare states and have become their prime defenders. Their fear that European integration may lead to welfare state retrenchment is a major reason for Nordic women's hostility to European integration. The increasing recruitment of women into the Nordic welfare states has led to a reversal of their political alignment more broadly. In the early postwar period, Nordic women displayed a greater tendency to vote for the right than men, though not to the degree of women in Catholic Europe. By the mid-1970s, this gender gap had disappeared (Stephens 1976). By the early 1990s, a reverse gender gap has opened in Scandinavia, with women being more likely to vote for the left and to support the welfare state than men (Svalfors 1992; also see Hobson and Lindholm 1997).

A final reason why external technological and international pressures and domestic socioeconomic changes do not directly translate into the convergence of domestic economic and social policies and institutions has to do with the emergence of *regional defensive and offensive alliances* that may intervene and shape the emerging process of global competition. Regional economic and political alliances may intensify internal competitive openness while protecting the region from external forces. The creation of the European Economic Community in 1958 established a set of constitutional arrangements at the supranational level that later channeled innovation in response to the economic problems of the early 1980s and the demise of national Keynesianism. The European Economic Community developed in the 1960s and 1970s as a side show to economic policy making conducted by individual states. But, as Hooghe and Marks note, once the supranational framework of the European Court of Justice, the European Council, and the European Commission were in place, they were deployed in a concerted attempt to eliminate nontariff barriers to upgrade the competitiveness of European economies.

The deepening of the European Union as a market and as a policy suggests that the changes of the past two decades cannot be understood exclusively in terms of individual countries as the critical units of governance moving through time. From our institutional perspective, the emergence of these political institutions, policies, and resources at the level of the European Union should represent further spurs to divergence. They present national actors with additional options in pursuing their goals under the pressures of international and domestic change. Whether and how they will use these can be expected to differ, depending on their interests and the strategic opportunities available within the national political setting. What is certain, however, is that they expand further the repertoire of policy and institutional options available. At the same time, of course, they also assure that an option to seek to close off national markets from at least European competition becomes even less attractive (see France in mid-1980s).

CONCLUDING REMARKS: THE LIMITS OF DIVERGENCE

Figure 15.3 summarizes the variables that promote convergence and sustained and new divergence among advanced capitalist democracies. We wish to close with a few skeptical remarks about the future of each of the three models of capitalism we have dealt with. In doing so, we should recall the difficulties that surround the achievement of stable and efficient new institutions and policies and the probability that none of the models has reached a viable equilibrium. Our claim is not only that there is no unique model toward which all of the capitalist democracies are now converging. It is also that none of the three models has yet stabilized around a set of policies and institutions well adapted to a particular global market niche. We observe, instead, dynamic regional and national political economies, embedded in an imperfect global competitive context, in search of partially path-dependent adaptation, but without yet having developed efficient governance structures or even a clear sense of what these might

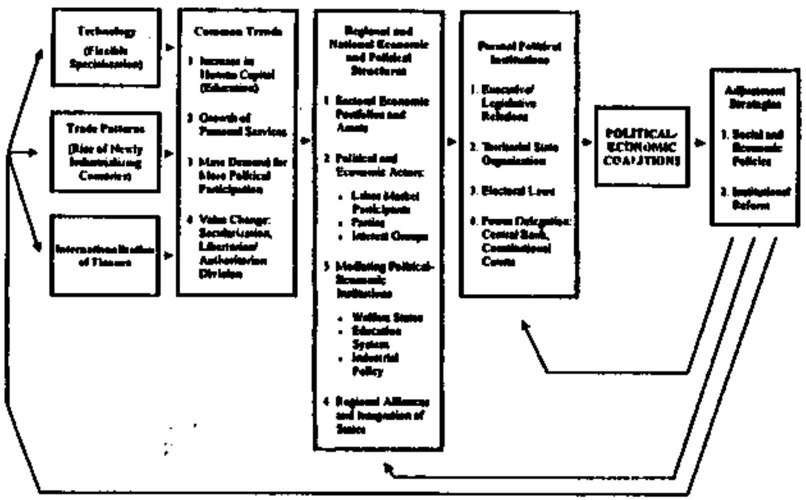

Figure 15.3. A model of change in the capitalist political economy

be. The stable political economic regimes of the golden age have been disrupted but not replaced.

Overall, the national CME type appears to have suffered the sharpest breaks with the past. Wage leveling within industries and firms arguably had reduced the incentives for students and employees to acquire new skills and seek riskier occupational environments to exercise such skills and the ability of employers to attract such skilled and educated labor when it was needed. The internationalization of finance removed policy tools that these countries had used to produce growth and employment. At the same time, the tax burden had reached such a proportion that, once the employment crisis hit, the increased cost of social provision had to be met primarily by entitlement cuts. With the end of intraindustry wage leveling, the decline in centralized wage bargaining, the rise in unemployment, and cuts, however modest, in the welfare state, the national CMEs are now moving toward the sectoral CME countries that share a number of features with national CME countries (business-labor cooperation, comprehensive welfare states, business concertation, strong unions).

However, the existing sectoral CMEs do not represent equilibrium solutions for the new international and technological challenges and are themselves changing. They too suffer from rigidities in the process of industrial and political innovation and reorganization because they rely on intricate processes of representation and negotiation among potentially conflicting groups at the level of firm, sector, region, and national polity.

Moreover, the conventional vehicles of organizing political-economic compromise in CME economies, primarily the Christian democratic parties, find themselves under severe strains due to conflicting currents pressing for more market liberalism or a strengthening of cooperative arrangements. Furthermore, all this is taking place at the same time as secularization and new libertarian political agendas are eating into one part of the electoral support of such parties, and new nationalist movements into another part (as well as into the constituencies of the left). Contingent upon the organization and immersion of such parties into the web of power relations, however, their fortunes have varied dramatically, as is highlighted by the Italian Christian Democrats and the Dutch Christian Democrats, on the losing side, and the German Christian Democrats, on the winning or at least electorally more stable side.

Do these difficulties of national and sectoral CMEs compel us to conclude that indeed, in the end, liberal market economies, together with supranational regional institutions enforcing market disciplines such as the European Union, will represent the model onto which the other regimes will converge? The uneven economic performance and the deep political conflicts in LME countries over the past fifteen years furnish few reasons for earmarking this type of capitalist political economy as the uniquely superior model. Marginal and shrinking welfare states have not significantly raised economic growth rates beyond the level achieved by sectoral CMEs. It is also difficult to see how, in the long run, these countries can follow their current strategy of attempting to compete in the world market on the basis of wage cost cutting, as other countries – now the East Asian and, tomorrow, the Southeast Asian countries – will always be able to beat them at this game. Moreover, the sharp growth of income inequalities and the virtual disenfranchisement of a growing "underclass" from effective participation in the capitalist market economy and the democratic polity impose their own tangible and intangible costs on such systems that render them a less than attractive growth model.

Thus, we are left with three firm conclusions. First, convergence on any unique democratic capitalist political economic model is unlikely, both because there are strong theoretical reasons to doubt such convergence is even functionally dictated and because path-dependent cognitive, institutional, and political factors militate against it. Second, there are no strong empirical indications that convergence is occurring. While national and sectoral coordinated market economies are becoming more alike, and more like the latter, they are not becoming more like the liberal market economies. In fact, it might well be argued that the differences between these two types have in several respects grown since the golden age and over the past fifteen years. Finally, nowhere is the future likely to be the present. None of the democratic capitalist market economies appears to have achieved stability in the face of the disruptive pressures coming from technological change, internationalization, and domestic socioeconomic change. In this sense, we can be certain that the diversity that has characterized the entire history of capitalism will continue. Stable contours of that diversity, however, are not yet in sight.

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