

The Politics of Choice Among National Production Systems

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Résumé. Comment expliquer la divergence marquée des modes de gouvernance des entreprises parmi les pays capitalistes ? Cet article met l'accent sur le rôle du politique et examine trois types de mécanismes mettant en jeu respectivement les institutions politiques, les groupes de pression et la société civile. La distribution des pays entre économies de marché libérales (EML), associées au Royaume-Uni et aux États-Unis et les économies de marché organisées (EMO), telles l'Allemagne et l'Europe continentale, semble correspondre à la distinction entre institutions politiques dites « majoritaires » et celles bâties sur le « consensus ». Les EMO exigent un investissement spécifique important et appellent en conséquence une protection contre le changement de ligne politique qui résulte des coalitions bâties sur le consensus. Par contre, les systèmes politiques « majoritaires » ont tendance à amplifier les changements de ligne politique et donc encouragent les systèmes économiques EML. Les explications mettant en avant le rôle des groupes de pression soulignent que les préférences des acteurs dépendent des intérêts et des institutions économiques, tels qu'ils ont été façonnés par l'histoire (path dependency). Ce sont les réseaux sociaux que mettent en exergue les explications en termes de société civile. Ainsi, les facteurs politiques influencent profondément l'impact des forces économiques en provenance du système international, mais de façon différente selon les pays. D'où une divergence importante dans leur manière de gérer les pressions économiques identiques.

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What explains the substantial divergence we observe in the way market economies structure their firms? Recent research on comparative capitalism sees the development of distinctly different national production systems (NPS). While the labels are different and at times the analytic categories vary regulatory models, culture and nationality, corporate governance, labor-management relations, as some examples, by and large researchers agree on the main descriptive features of these systems and on many aspects of how they work. This allows us to move to the question of explanation and the role of politics. What political factors could account for the variance we observe among national production systems? What are the political causes that shape a country's choice of one system rather than another? This paper focuses on three types of political mechanisms: political institutions, interest group preferences, and social networks.

MICRO INSTITUTIONS AND NATIONAL PRODUCTION SYSTEMS

Comparative political economy has shifted from an earlier concern to with macro economic policies to an examination of micro-institutions. (Gourevitch [2001]). The macro approach focussed on fiscal, monetary and trade policy. The micro approach looks at the institutions which structure incentives. These include corporate governance rules, taxation, labor training, labor markets and wage bargaining, price setting mechanisms, the structure of employer associations, the welfare state, and private and public financial institutions. These components form part of a system, each reinforcing and interacting with the others, clustering around alternative equilibria. While they use different labels, and somewhat different theoretical foundations, many authors agree on the major features of the systems: Michel Albert [1992] writes of the Anglo-American model vs. the German-Japanese, or Rhenish-Nippon model. Kester [1992] speaks of « corporate governance » vs. « contractual governance ». Roe [1994] focuses on the fragmentation of ownership. Boyer [2002] and his colleagues speak of modes of accumulation and regulation. Hall and Soskice [2001], Iversen and Soskice [2001], and Hiscox ([1999]; [2001]) stress the distinction between general and specific assets. There are dissident voices who are skeptical about the variance: Miwa and Ramseyer ([2002a]; [2002b]; [2003]) argue Japan is a market economy like others, and economists tend often to think about « the economy » rather than variance among them. We take the existence of differences as real, and move to explore the politics behind them.

While they agree on the categories of comparison, theorists of comparative market economies do not agree on classification of the systems to be compared. Boyer [2002] postulates four types of market economy (market, social democrat, meso-corporatist, and state-activist; Esping-Anderson [1990]; [1999], Iversen and Wren [1998] compare three regimes Neo-liberal, Social Democratic, and Christian Democratic.) Hall and Soskice [2001] have been using the dichotomy of Liberal Market Economies (LME) and Organized Market Econo-

Economies (OME) or CME, for Coordinated Market Economies, which can be used interchangeably with OME, though they also speak of « mixed systems » such as France where there is more state activism than in neo – liberal economies, but less « corporatist » coordination than in the purer OME examples. Boyer [2002] is critical of this binary classification. Our purposes here are to develop concepts for giving political explanations for variance. We shall therefore accept the simplifying advantage of the binary distinction of Hall and Soskice and use those terms.

The essential feature of LME systems is an arms-length relationship among atomized units (financiers, shareholders, managers, workers, suppliers) in a competitive market with fragmented ownership and market centered monitoring of managers relying on publicly available indicators of performance, with vigorous markets for control and enforcement of anti-trust rules. The essential feature of the OME systems is a close relationship among inter-linked units in a structured market whose internal competition is hedged by formal and informal rules, with concentrated ownership giving shareholders the incentive and ability to monitor managers, and to allow substantial information sharing among members of the producer network, without threat of anti-trust suits or takeovers. Kester [1992] sees the fundamental principle of the LME to be concern with the moral hazard of agency, and the solution lying the monitoring powers of external shareholders; he sees the fundamental principle of OMEs to be concern with transaction costs and the solution lying in strong internal linkages within a firm or network of relationships. Each system pays a price for its emphasis : it is weak in the arena where the other is strong.

Both systems rest on a substantially body of law and regulation. These determine corporate governance, the rights of shareholders, the market for control, the definition of insider trading, concentration of share-ownership, anti-trust, labor relationships, price setting, social insurance, worker training. One of the striking features of the recent national production system literature is its effort to show the interaction of different subsystems in shaping a coherent pattern. Thus education, labor relations, price setting, relations among firms, welfare systems, and general economic policy are all interconnected. (Hall, Soskice [2001]; Iversen, Soskice [2001]; Iversen, Wren [1998]; Hall, Gingerich [2001]).

Looking only at advanced industrial countries (OECD economies), Hall/Soskice classify them as follows: LMEs: United States, United Kingdom, Ireland, Canada, Australia, New Zealand; OMEs: Germany, Austria, Sweden, Denmark, Norway, Japan, Netherlands, Belgium, Switzerland, and Finland; Mixed cases: France, Italy, Spain, Turkey, Portugal, and Greece. The mixed cases are those which have some elements of liberal market relationships, but various mechanisms of coordination, generally involving the state (Culpepper [2002a]; [2002b]).

THE POLITICS OF CHANGE: THE ORIGINS AND

THE FUTURE OF THE NATIONAL PRODUCTION SYSTEMS.

What explains the differences we find among national production system? We can stylize the question as a choice: from alternative possible systems, countries have « chosen » one over the others. What explains that choice? Why does a choice persist over time? What could cause a country to change from one system to another? This paper focuses on political causes. Other traditions of explanation exist – culture, historical evolution, legal traditions, economic context, among others. (Murakami [1996]; Dore [1987]; [2001]; Roe [1994]; [2001]; Rajan and Zingales [2001]). Other variables may indeed have influence, but the presumption here is that they operate at some point through politics. Production systems rest on regulations, rules and policies, all ultimately proclaimed and enforced by governments. Securities regulation and corporate law shape corporate governance; labor legislation shapes labor markets and the role of unions; social policy shapes welfare systems, etc. These rules and policies derive from politics: from elections, courts, bureaucracies, executives whose authority ultimately derives from forms of political power. Path dependence as an explanation is thus a way of generalizing about a pattern of policy choices, thus of a pattern of politics, whose persistence requires explanation.

The United States, for example, once had many elements of an OME : concentrated ownership (trusts), bank and insurance company ownership of large blocs of shares, extensive cross-shareholding. Over time, legislation, court decisions and enforcement shifted the economy toward an LME : the Sherman Anti Trust Act and its enforcement against Standard Oil prior to WW I ; the separation of insurance companies from managerial activity prior to WW I (Roe [1994]) ; the Securities and Exchange Act of the 1930s separating commercial and investment banks and vigorous assertion of the rights of external shareholders ; the Glass Steagall and McCarren Acts concerning banking are all examples of political action altering the regulatory policy of the US which in turn alters the structure of its firms and economy.

France appears also to have shifted in some ways, though in the other direction. It once had features now associated with LME's: a very high degree of market capitalization, substantially greater than the US, and concern for shareholder protection (Rajan and Zingales [2001]). From 1914 until recently, French politics shifted the regulatory apparatus in a quite different direction, toward coordinated models, and appears now to be swing back in some ways.

If politics competes with other variables to explain national production systems and forms of corporate governance, within the realm of political explanations there are several contenders: political institutions, interest groups, and civil society.

Political Institutions

Formal Political Institutions

We know that the rules by which decisions are made can affect the outcome of those decisions. The way interests are aggregated by political processes influences who wins and who loses. (Rogowski [1987a]; [1987b]; [1997]; Moser [1999]) This suggests that variance in regulatory policy on corporate governance may vary with differences among political systems. (Cowhey [1995]; Noll, Rosenbluth [1995]). Hall and Soskice [2001], Iversen and Soskice [2001] have developed such an argument: the choice between LME and OME rests, they suggest, upon the ability of a government to make a credible commitment to maintain the regulatory system necessary for investment in dense specific assets. If a government cannot credibly commit to preserving the system, economic actors will shift toward the LME system because it gives them the flexibility to deal with shifting economic conditions.

This argument is compelling in its logic: OME systems involve massive investment by all economic players in specific assets, of relationships, technologies, etc. These are risky investments – they expose the actors to significant costs if there is rapid change, for generalized assets would do better in such an environment. So, OME economic players cannot go down that route unless they can be sure the government will sustain it. They are more likely to believe in the constancy of government policy in those systems where they have enough structural influence to punish governments that deviate from existing policy. (Hall, Soskice [2001]).

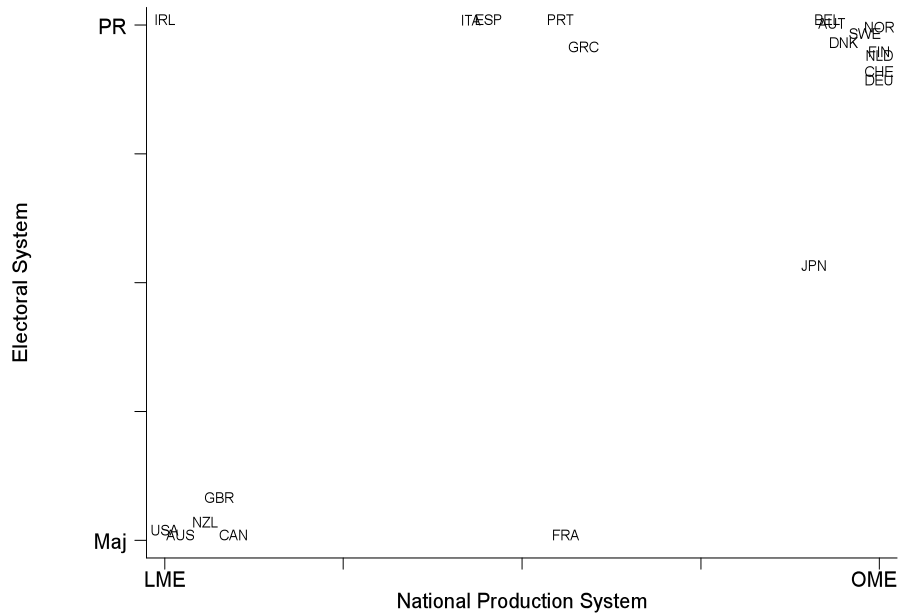
What political system will do that? Hall and Soskice assert that « political regimes characterized by coalition governments, multiple veto points, and parties that entrench the power of producer groups may be more conducive to investment in co-specific assets than states that concentrate power in highly autonomous party leaders. » (Hall, Soskice [2001]). Majoritarian systems that concentrate power in the government inhibit credible commitment to producer groups, while coalitional, consociational or quasi-corporatist systems can credibly commit (Hall Soskice [2001]). In the former, governments have greater capacity to carry out an electoral mandate; small shifts in voter behavior can therefore produce substantial shifts of policy. In the latter, the coalitional systems, power is shared, so that voting shifts cannot easily translate in policy change. Thus credible commitment is more difficult in majoritarian than in coalitional systems.

The operationalization of the concept of credible commitment is thus tied to political institutions, which makes it testable. We can draw on recent work classifying political systems according to their institutions and correlate these with the classification of production systems described above. Lijphart [1999] and the World Bank's Database of Political Institutions (Beck, Clarke, and Keefer [1999]) provide the needed data. Using Lijphart's [1999] definitions and measures, and the Database of Political Institutions (Beck, Clarke, and Keefer [1999]) we tested over 30 political institutional variables, focusing on the fea-

tures most relevant to the Hall – Soskice argument regarding provision of credible commitments. (This material below is adapted from Gourevitch and Hawes [2001]).

What are the results for the Hall/Soskice argument? The overall argument is confirmed, but some of the details do not. That is, the argument is persuasive if it is properly stated. The strongest positive correlations between nps (National Production Systems) and psv (political system variables) are with electoral system (0.71), political cohesion (0.72) and the number of effective political parties (0.67) (figures 1, through 3). The electoral system variable (figure 1)

Figure 1. *Electoral System*



Source : Lijphart [1999].

Corr: $r = 0.71$

sorts countries out according to plurality (one victor from each district on a single round), semi-PR – a mixture of proportional representation and plurality – and full PR electoral systems. All the countries with plurality systems, with the exception of France, are LME systems (US, UK, Australia Canada and New Zealand). Japan is the only mixed regime system country noted, and it is a high OME. Among the PR countries, only Ireland is an LME while all the rest are either OME (Scandinavian countries, plus Germany, Austria, Benelux) or mixed regime countries (Italy, Greece, Spain and Portugal).

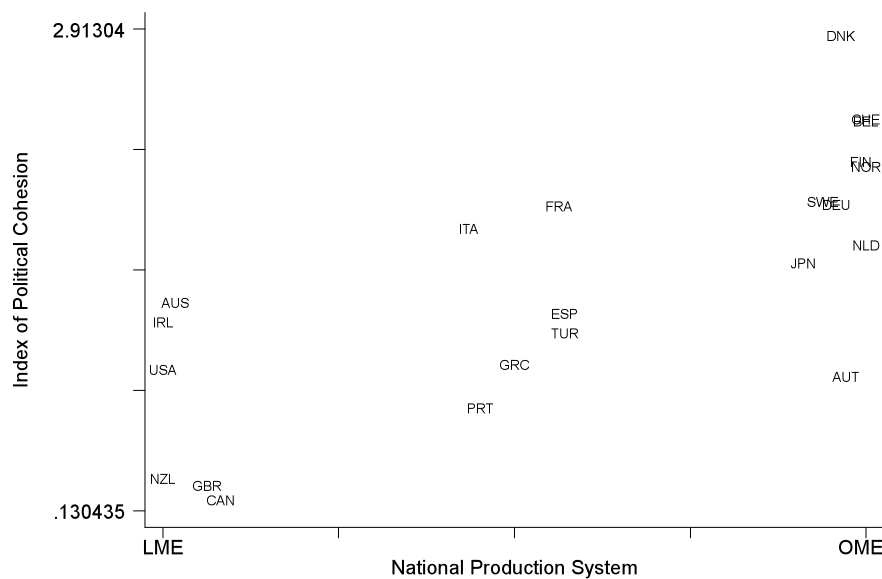
Thus, electoral systems have a large effect on the credible commitment logic. Plurality systems drive countries toward a two party system, and distort the relationship between vote percentage and total seats in the legislature. The

shift of a relatively small number of voters can produce a large shift in the party in power and in the size of its majority. Thus small shifts of voters can produce a large swing in policy orientation by changing majorities or size of majority bloc. So the electoral system variable supports the argument.

A second variable that correlates highly is the Index of Political Cohesion (figure 2). This indicator measures the degree of party unity in government.

For presidential systems, it measures single party control of government (President and Legislature) or divided government; for parliamentary systems it contrasts one-party government, two-party coalition, multi party coalition or minority government. The LMEs cluster toward the single party control end,

Figure 2. *Political Cohesion*



Source : Beck, Clarke, and Keefer [1999] – Database of Political Institutions
Corr: $r = 0.72$

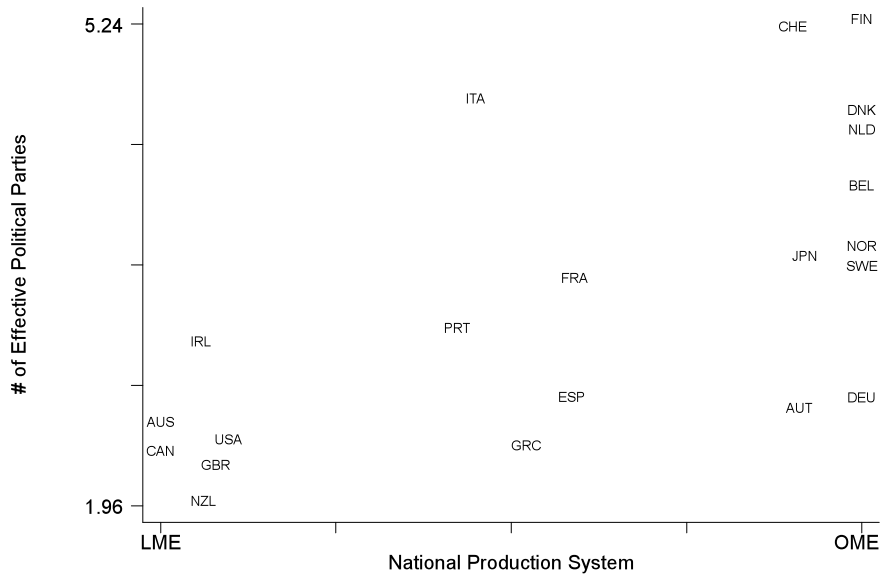
while the OMEs spread across the whole range of possibilities from Austria with one party control and Sweden, Norway, and Denmark with minority party governance or multiparty coalitions. The mixed systems also spread out but not quite as much as the OME countries. The size of the correlation ($r = .72$) comes from the clustering of LMEs in the single party end, and the Scandinavian OME countries at the other end. This variable indicates something about the relationship between veto gates and party systems, which will be explained below.

The third positive correlation, the number of effective political parties (fig. 3), reflects the logic noted with electoral systems. Two party systems produce larger swings in policy when the parties alternate in office, thereby reduc-

ing the probability of commitment to the regulatory regime which the OME producers desire. The countries with plurality systems are all located with two parties and LME. The OME countries spread out more broadly on party systems than on the electoral systems, with Switzerland, Finland, Netherlands and Denmark being OME countries with the largest number of effective parties (Switzerland with over 5), while Germany and Austria are closer to three and the other countries in the OME group spread out between the others.

Two variables that should have high correlations according to the Hall/Soskice logic in fact do not: the number of veto-gates (0.27) and political regime type (0.15). The expectation is that the more veto gates, the more

Figure 3. Number of Effective Political Parties



Source : Lijphart [1999].
Corr: r = 0.67

producer groups have the ability to prevent governments from abandoning their commitments, thus the more likely they are to have and maintain OME systems.

In the DPI measure of veto-gates, the LME's spread out somewhat, the OME's spread out a lot, as do the mixed regime countries. The US is a relatively high veto gate country, the highest among the LMEs, ranking with Denmark a bit lower than Finland (the highest) Switzerland and Belgium among the OME's, and a bit lower than Italy and France among the mixed systems. Among the OME's Japan, Norway, Sweden, Austria are ranked quite low in veto gates, about the same levels with New Zealand, UK, Canada and Australia.

Examining these indicators of the relationship between institutionalized veto gates, and production system, we find poor support for this reading of the Hall-Soskice argument. A test of institutionalized « checks and balances » gets ($r = 0.27$). When we look at the degree of federalism and the presence of a bicameral legislature, we get even weaker ones, respectively ($r = 0.07$) and ($r = - 0.09$).

These measures of veto-gates, however, concentrate primarily on de jure institutional veto points within the political system. The notion of « veto » finds more powerful confirmation if it is differentiated between Veto Points, Veto Gates, and Veto Players.

« Veto Point »: Any point within a political system where legislation can be blocked (includes Veto Gates, and Veto Players.)

« Veto Gate »: A formal institutional point where legislation can be blocked

« Veto Player »: Any political player or group which has the capacity to block legislation.

Thus, a presidential system with a bi-cameral legislature would have three veto-gates, but the number of veto-players depends on the division of Government and the degree of party unity. If such a system had a strong party system, and the same party controlled all three veto gates, there would be only one veto-player. But, if there was divided government, there could be two or three veto players – depending on the organization of the parties controlling the two chambers of the legislature.

Similarly, a unicameral parliamentary system would have only one veto-gate, but could have any number of veto-players depending on how many parties are included in the governing coalition.

So Majoritarian and Consensus systems could both have any number of veto-gates. What distinguishes them is that Consensus systems have many veto-players, and Majoritarian ones have few veto-players. (i.e. consensus systems, by having multi-party coalition government have many groups that can veto – legislation – majoritarian systems lack these multiple de facto veto players)

The most effective reading of the Hall-Soskice hypotheses would suggest that it is not the institutionalized veto-points that allow governments to commit credibly to OME systems, but rather, the actual practice of consensual policy-making (thus, the de facto veto players) within a system. Lijphart, in differentiating between majoritarian and consensus-based political systems, defines the arch-typical Majoritarian (Westminster) systems as having these 10 characteristics (Lijphart [1999]):

- concentration of executive in one-party and bare-majority cabinets;
- cabinet dominance over the Legislature;

- a rigid two-party system;
- majoritarian and disproportional system of elections;
- interest group pluralism;
- a unitary and centralized government;
- a unicameral legislature;
- constitutional flexibility;
- absence of judicial review;
- and a central bank controlled by the Executive.

No regime adheres to all of these criteria, but Lijphart identifies the UK as the closest to that end of the spectrum. By contrast, « consensus systems » are characterized by cabinet dominance over the legislature, but within the context of a multiparty system, induced by proportional representation, and resulting in broad coalition majorities within the government. Thus the important distinction between Majoritarian and Consensus systems is that, independent of the number of institutional veto-gates established by the political system. Consensus systems have a high number of veto-players within the system, while Majoritarian ones have few.

In the credible commitment argument, Majoritarian systems have low probability of committing to an OME system. Power is concentrated in the executive, which can shift by an election. Social groups lack the leverage to veto any change of policy, or at least greatly slow it down. Consensus systems by contrast have broader coalitions among several parties drawing on non-distorted electoral laws. As a result, elections do not produce strong shifts in political dominance.

The majoritarian/consensus dichotomy does not coincide with differences in regime-type; parliamentary systems fall on both extremes of the spectrum, with presidential and semi-presidential regimes falling somewhere in between. If we measure only regime type (presidential vs. parliamentary) the evidence does not support a positive correlation on this measure (figure 5). The LME systems spread the whole range from the US as the most Presidential, while the UK, Canada, Australia are all at the opposite end are all parliamentary, with Ireland in between. France and Portugal from the mixed regimes and Finland, Switzerland, Austria among the OME's are semi-presidential. Germany, Sweden, Norway, Japan, Denmark, Netherlands are Parliamentary among the OME's along with Italy, Spain and Greece in the Mixed. It is the case that no OMEs are non-mixed Presidential, but the presence of both OME and LME countries on the parliamentary side wipes out any correlation.

If, however, we select a measure of political system that does differentiate between majoritarian and consensus-based models of governance (and thus measuring the existence of de facto veto players, independent of the number of institutionalized gates), political system does prove to be highly correlated with national production systems. Since the consensus model is founded upon the idea of governance based upon the views of a multitude of political actors, rather than concentration of decision-making authority in one or a few actors, the Index of Political Cohesion ($r = 0.72$) noted above is one indicator of the

difference between these two types of political system (figure 2) : All the LME Parliamentary countries lie at the low end of parties in government ; the OME countries spread out somewhat, but only Austria is near the LME end of the party measure, while all the others spread toward the multi-party side, with the Scandinavian countries at the high end. A slightly less accurate measure of this same feature is the number of effective political parties ($r = 0.67$), measuring the number of viable parties, potential coalition partners or blockers of coalitions, and gives us a similar spread of the countries.

Other measures of de facto veto players within a political system find a similar correlation with production system. Tsebelis and Chang's [2001] measure of average ideological distance of two parties within government has a moderate correlation ($r = 0.60$). Similarly, Witold Henisz's [2000] measure of « political constraints » also finds a moderate correlation with national production systems ($r = 0.60$).

Consequently, we find that the veto-gate hypothesis proposed by Hall and Soskice needs to be refined. A basic analysis of the data demonstrates that institutionalized, de jure, veto gates are not sufficient for governments to establish the credible commitments necessary to forge Organized Market Economies. It is, in fact, the nature of the political system itself, which establishes the de facto veto players within a society that provides the conditions under which these commitments can be made. However, recognizing the imperfect fit of the correlations between even the de facto veto players and national production system it is also important to note that the role of the veto point variable does not operate independently of some other variables. A strong veto point system will reinforce a status quo, be it OME or LME. The US having developed LME, has that production system reinforced by its political system. So, it may be that whatever you have gets reinforced, be it OME or LME, by a high veto point system. But the aggressive version of the argument is not a path dependent one. The vigorous version of the Hall – Soskice discussion is that majoritarian political systems will corrode OMEs.

Hall – Soskice use this language (that majoritarian systems do corrode OMEs) but their argument is somewhat more complex and composite than that phrase suggests. They include several variables that are not part of a purely institutional majoritarian model: representation of producer groups in the party system for example and the relationship of the Cabinet to the party system. If a country has producer groups with a lot of power in the parties, and if the country has a multi-party system so that the Cabinet must rely on a coalition of these producer group-dominated parties, then the Parliamentary structure of the regime moves it from a Majoritarian system, with a veto-free strong government, into a high-veto system government. This move – to integrate the representation of producer groups into the party model – may make the argument explain more variance, but it does so at a very important cost: a characteristic of the dependent variable (producer group relationships) creeps into the independent variable (political institutions). This deserves some attention.

Representation: Corporatism, Interest Groups and Political Parties

Should corporatist structures, instruments of representation of producer and other social groups, be included in an institutionalist model? Iversen and Soskice do this in an important recent paper [2001] which explores the political foundations of support for OME vs. LME models. The paper provides an original argument that links economic characteristics of individuals to party system. They then show that party systems, shaped by electoral laws, correlate substantially with type of NPS. (Their measures correlate electoral systems with NPS, but infer party system from electoral system, rather than measure it independently). Our discussion above substantially supports their finding. Where we disagree is on conceptualization of the role of corporatist structures in a causal sequence. They include a measure of corporatism as part of the institutions of representation. We see corporatism as part of the production system, thus part of the dependent variable and cannot be used at the same time on the other side of equation. Corporatism is an aspect of the power-sharing of OME's in comparison to LMEs. It is created, and can be changed, by the same political institutions that sustain, or oppose the OMEs. Iversen and Soskice are quite right, in our view, to see the importance of corporatist structures – they certainly provide forms of power that sustain the OME system. Where we disagree is on the causal sequence. This deserves some attention.

In exploring what features of politics provide the credible commitment to policies patterns desired by OMEs to protect their investment in specific assets, Iversen and Soskice extend the discussion to voter attributes and party systems. Voters with strong investment in specific assets are likely to support parties that are structured so as to protect those assets – thus parties which are highly institutionalized and resistant to change. As a correlary, such parties seek voters with those characteristics. Voters with general skills have less need for this kind of protection and will thus interact with more fluid parties. They argue not a causal direction, but a reinforcing interaction, « mutual reinforcement between political system and the distribution of assets. » (Iversen, Soskice [2001]). This is indeed an original argument: the linking of party system choices to specific asset features of individuals.

What, they ask, allows parties to make programmatic appeals to specific kinds of voters? Iversen and Soskice stress electoral systems. Using and Shugart [1998] they show that the credibility of promises made in the party platform depends on the ability of parties to control politicians reelection chances. Closed party lists where party determines candidates rank is the strongest means of doing this. The open primary system of the US is the weakest, as it strongly undermines the ability of leaders to shape the destiny of individual candidates. While the UK has a single member district system, it also has strong party control of candidates – something which electoral rule alone cannot explain.

This part of the Iversen – Soskice analysis resonates very strongly with our own. The divergence lies in their linkage of party to social groups and of repre-

sentation to corporatism. The representation of organized interests in parties and the political process – corporatism – they argue, increases the ability of such groups to protect their investment in specific assets (Iversen and Soskice, 2001). Iversen and Soskice show that the existence of corporatist institutions does in fact lead to greater investment in specific assets.

In so doing, Iversen and Soskice develop a line of reasoning which has been particularly interested in the relationship of groups to political parties, and most directly of trade unions to labor parties. The initial round of work linking voting behavior to policy choices explored the impact of the left vs. right party distinction in relationship to Philips Curve trade-offs: left parties defended employment at the expense of inflation, while right parties preferred to tolerate high unemployment to prevent inflation (Hibbs [1977]). Researchers saw right away that a simple voting model did less well as an explanation than one which included other ways of measuring the power of trade unions: strikes, and representation in the left parties (labor, social democratic) (Garrett [1988]; Garrett, Lange [1995]). Researchers have extended the forms of corporatism in their research to other issue areas (Schmitter [1974]). The work of Hall, Iversen, Soskice provides a comprehensive overview of this logic.

These arguments about the effects of corporatism are persuasive in their account of its effects. The problem lies in their position in the causal argument. Corporatism is indeed a form of representation, but it is different from the formal institutions of the political system (Berger [2002]). Corporatism is created by political process. Political systems decide who gets voice and in what way. The system of interest representation towards the government is an act of delegation by authorities to groups — an action which can be revoked. The American Congress decides what forms of consultation must be undertaken by regulatory and bureaucratic agencies: when agencies are obligated to consult, how and with whom. Countries where corporatist representation is systematic could withdraw it if they so chose. In corporatist European countries, laws decide the role of business and labor in the education system, social services, labor markets, price setting, standards, health and safety in products, and so on. The degree of corporatism is thus an expression of politics.

Placing corporatism itself as a causal variable in shaping the choice of economic system risks mixing the dependent and independent variables. Corporatist structures are an element of OME systems. Since we seek to explain the choice and persistence of OME systems, we seek also to explain the existence and persistence of corporatist institutions. The role of employers in worker training, of unions in corporate governance, of labor and business in welfare – these forms of corporatism are the defining elements of the OME system. They belong thus on the right hand side of the equation. Putting them on the left risks circularity. A characteristic of the dependent variable (producer group relationships) has crept into the independent variable (political institutions).

The Iversen – Soskice argument is quite powerful without the corporatism variable. Corporatism does extend it, but should be seen as an institutional extension of OME, rather than a cause. Looking at electoral systems alone

(Iversen and Soskice's proxy for parties' political credibility) the adjusted R-squared of their regression is .58. Including corporatism into their « Institutional Capacity for Commitment » index raises it to 0.70.

The political credibility variables can, however, explain more if it includes de facto elements of the party systems as well. In explaining policy resoluteness, Iversen and Soskice focus their attention on the relationship of electoral system to the individual incentives facing candidates to support the party line. Those incentives are certainly important – and linking them to voter characteristics is an original part of their paper – but overall governmental policy resoluteness is influenced by several additional factors, including the number of parties in government, which has been attributed to an interaction between district magnitude and societal heterogeneity (Ordeshook and Shvetsova [1994], Amorim-Neto and Cox [1997]). Thus, one may argue that the Carey and Shugart index of electoral systems used by Iversen and Soskice is only capturing a portion of that capacity for commitment connected to political institution variables.

Switching tactics, and measuring this capacity for commitment as the average number of de facto veto-players within the political system, we find even stronger results for the Iversen-Soskice argument, even in the absence of any introduction of corporatism into the independent variable side of the equation. These results are summarized in table 1.

Table 1. *Political indicators*

	DV : Vocational Training		
	Model 1	Model 2	Model 3
Electoral System	4.41 (1.41)	---	---
Electoral System & Corporatism	---	27.6** (2.67)	---
De Facto Veto Players (Party System)	---	---	10.68*** (3.14)
Government Transfers as a % of GDP	40.70*** (3.73)	33.1*** (3.34)	26.57* (2.64)
Partisan Center of Gravity	4.40 (0.63)	5.58 (1.01)	-5.80 (0.248)
Degree of Unionization	0.03 (0.22)	-0.06 (-0.60)	-0.05 (-0.53)
Trade Openness	-3.52 (-1.26)	-3.21 (-1.44)	1.84 (0.77)
GDP Per Capita	22.88 (1.46)	16.14 (1.22)	4.44 (0.34)
Constant	-293.54 (-1.91)	-226.99 (-1.76)	-109.5 (-0.85)
Adjusted R-Squared	0.58	0.70	0.74
N	18	18	18

* = significant at the .05 level; ** = significant at the .01 level; *** = significant at the .001 level (two-tailed tests) (T-scores in parentheses)

Sources: Dataset compiled by Iversen and Soskice [2001] from various sources. De Facto Veto Players is the Index of Political Cohesion (IPCOH) from Beck, Clarke and Keefer [1999].

Thus, we find that corporatism is not an essential part of the argument, and that the number of veto players within the system is a fairly good predictor of the capacity of governments to make credible commitments, independent of the degree of corporatism inherent to the political system.

And yet, examining these alternative explanations, it is important to note that there is an interaction effect going on between the various explanatory variables being used: The discussion here – Hall – Soskice, Iversen – Soskice, ourselves – all see the centrality of parties in the politics of NPS. This does pose analytic problems, though, which resonate with the corporatism discussion. What causes the party system patterns? Electoral law tells a lot, but not quite enough. Countries with similar electoral laws differ in key features of the party system (majoritarian vs. consensus). They differ moreover in just the characteristic Iversen and Soskice were exploring in the corporatism discussion and which Hall – Soskice raise as well. What is the role of producer groups in the party system? Indeed what is the origin of the consensus vs. majoritarian elements of the party system? We note ourselves in the distinction between *de jure* and *de facto* causes that the formal institutional rules (electoral laws, constitutional arrangements) do not sort out the key influences on credible commitment. Social cleavages and path dependency seem to be important factors as well.

The importance of unions in the British Labor Party and in the German Social Democratic Party in contrast to the American Democratic Party goes back to their origins (Koelble [1991]). Electoral laws are one cause of this, but their appear to be others that influence the historical trajectory of the parties. Social democratic parties differ quite significantly in the role of unions in their formation, and thus of unions in the party structures. The evolution of Christian democratic parties differs quite significantly as well: in France, these were weak before WW II, and, largely because of Gaullism, did not become as important in French politics as in Italy and Germany. Conservative parties also have quite different histories in the various countries. These trajectories interact with formal institutions to produce the patterns we have observed.

Formal institutions (electoral laws and constitutional arrangements), party structure and organizational form, and corporatist forms of representation are analytically different. It is not clear that formal institutions (a constitution) can be explained by the party system and corporatism (though one could try – de Gaulle designed the constitution of the 5th republic to deal with what he saw as weak, fragmented and ineffective political parties). Parties are themselves instruments subject to regulation. The electoral law literature stresses the incentives for party formation arising from the strategic behavior of voters. Parties are also subject to more direct regulation as organizations. The US case is interesting in this regard. American law requires political parties to be quite open structures. In New York, for example, parties are obligated to have county leaders elected directly by those who register in the party. Most states have primaries to select candidates, at all levels of the political process, from President to city councils. Many states have referenda, where by petition, people

outside the legislature can put items on the ballot which are binding on the legislature if passed. Many of these rules derive from the Progressive era, which sought to strike down the urban machines. The effect of these changes in the party system has made the American system open to new movements and new demands. Politics in the US seems more open to new movements – populism, progressivism, environmentalism, religious fundamentalism, to cite a few examples over the years. This contributes to the idea of a weak commitment to preserving a production structure of which Hall – Soskice speak, and the responsiveness of the political system to unhappy farmers, environmentalists, and all manner of protests. So party systems shape politics and are influenced by electoral laws, but the electoral laws themselves are shaped by politics.

There is thus an interaction effect among parties, constitutions, and corporatism which is hard to untangle. In doing so, it is important, to avoid circularity.

Interest Groups and Social Forces

All of the political arguments examined so far focus primarily on institutions. The logic of an institutionalist analysis is to assume that the countries being compared do not vary in the preferences of the political players within the system. Institutions aggregate preferences in different ways, thus, to an institutionalist, policy variance must lie in institutional variance. (Gourevitch [1999]). The strongest version of these arguments see interest groups and their preferences as themselves deriving from politics and state power. Unions for example exist because the state allows them to – politicians seeking to mobilize support see in unions an instrument for doing so. Politicians may alter the composition of their constituencies to increase their chances of reelection – the role of gerrymandering in the US, for example.

A contrasting tradition begins with interests and preferences, and notes the way institutions themselves express the preferences of actors. (Frieden [1999] ; Rogowski [1999]). Variance among country policy would express therefore variance in preferences of groups within them, the power resources internal to the groups for engaging in political action, and the bargaining that takes place among them. The US has an important oil industry, Japan does not, thus we would expect different political debates on energy policy ; the US has an efficient agricultural sector, Japan does not ; therefore we would expect different policies toward agriculture. The open economy macro literature derives preferences from economic position in the world economy : the abundant factors of production in an economy prefer free trade, the scarce ones prefer protection (Rogowski [1987] ; Magee, Brock, Young [1989]).

Interest and preferences arguments find institutionalist arguments insufficient : institutions do influence outcomes of interest aggregation but it is also possible that the interest groups « find » each other, regardless of institutional variance : republican France and autocratic Germany both adopted high tariff policies in the late 19th century (Gourevitch [1986] ; Frieden [1999]). Institu-

tions are used by groups; their impact requires analysis of the groups and their resources (Becker [2002]).

Instead of the term interest groups, the European tradition prefers terms such as social forces or socio-economic actors, or classes. Those labels stress the capacity of groups to act directly on the formation of policy and regimes : direct bargaining among unions and managers, for example, such as those in Saltsjobaden in 1938 Sweden or as happened in France in 1936 (Matignon agreements) and 1968 (Grenelle). This kind of direct « pact » negotiation is relatively unusual in the US or the UK, but it does occur less directly in the form of « strikes » – by labor in ceasing to work, by capital in ceasing to invest or fleeing the currency. The interest group label, by contrast, stresses the activities of groups in influencing legislation and regulation via formal political institutions. What kinds of arguments can we find in the interest group/social forces literature to account for variance in market systems?

Gerschenkron's [1962] « economic backwardness » argument is the most famous of this kind of argument. Facing little foreign competition, fairly simple technology and low capital requirements, the British economy was able to develop in a highly decentralized, open market manner. The textile industry had many small firms, drawing on a wide range of sources for capital. Banks were relatively small and decentralized. By the time Germany and Japan began to industrialize the situation was quite different. With the UK already well advanced, these countries faced stiff competitors. The economy had shifted from textiles, to iron and steel, railroads, then chemicals. These were technologically complex, and required massive amounts of capital for entry. Centralized structures were useful: investment banks, state assistance, cartels and trusts (Kurth [1979] ; Gourevitch [1986]).

The implications of Gerschenkron's argument is that it is the logic of development encouraged by economic and social conditions that generates the institutions in which groups invest and thus seek to perpetuate. This has a first cut plausibility to it : the middle and later industrializers are more likely to fall in the OME category than the early ones.

Yet at the same time, Gerschenkron says very little about the politics of how the choice was actually made to move down a particular development path ; his analysis is a correlation explained by a functionalist logic. The late industrializers made use of institutions to solve problems. What politics inclined them to use those institutions actually to solve these problems? Many functionalist needs are not met, and many countries fail to utilize the opportunities offered. How Germany and Russia actually came to make these choices is not part of Gerschenkron's analysis.

The gap can be filled with an interest group argument. Early industrialization spawned interest groups in the UK that wanted LME; the relative openness of British politics was receptive to these groups. In Germany and Japan, economic conditions favored centralized, concentrated groups, who were able to make use of existing state and economic structures to promote their goals. The logic of late industrialization rewarded actions and groups that could use these

centralized structures. Institutions are important, but the logic is interactive : there is an affinity among economic groups, economic rewards and pre existing state structures. Once the groups are in place, they become advocates for the system which benefits them – again an interactive logic.

Roe's [1999] argument about the role of labor in the politics of corporate governance regulation is an example of this kind of analysis. Roe offers one of the few explanations centered on politics : where labor and social democracy are strong, shareholder rights (LME model) are subordinated to stakeholder concerns (OME model) (Roe [1999]). There is some force to this argument: labor groups are indeed among the defenders of power sharing and criticize the layoffs and plant closures that seem often to follow the mergers that occur in the shareholder system.

The Varieties of Capitalism argument suggests Roe's account is incomplete. Labor is only one of several groups seeking to defend the stakeholder model. Blockholders, the owners of large blocks of shares in the firm, seek to defend their privileged position in the firm, and oppose having to share power with « external » investors. Communities, local and federal governments seek to preserve their influence in decision-making, to prevent the loss of jobs or investments (Shinn [2001]).

In the VC analysis, the logic of interests and preferences are different in OMEs from LMEs. This follows the logic of specific assets. The actors in an OME are quite interdependent in their investment. Each depends on the other for the value of their contribution and so each has an interest in preserving the system. This may create alliances in OMEs among actors who in LMEs are in conflict, so that political cleavages are often different from the standard expectations (Estevan – Abe, Iversen – Soskice [1999] ; Thelen, Mares [2001]). Discourse in the US, a LME, assumes that strong international trade pressure induces firms to seek lower costs by driving down taxes, employment regulation, and social service charges. The VC literature shows that in another context, this is not true. In OME countries, firms will not have the same incentive to do this. On the contrary they will be allied with labor in support of regulations. The specific-assets-trade-cleavage model has long assumed a convergence of interests between labor and capital on protectionism: steel owners and workers alike will defend tariffs if they capital and jobs are threatened by imports. The Iversen-Soskice analysis extends this line of reasoning toward the choice of political parties: those with strong specific asset investments seek political parties which focus on them, while the parties work to preserve their constituency base.

These arguments from the Varieties of Capitalism school about preferences toward policy are heavily dependent on the « interaction of variables » phenomenon: that the various dimensions of the system tightly interact, so that we have a U shaped equilibrium curve, where systems tend toward one pole or another. If this is not true, that is, if the various dimensions carry vary without drawing other dimensions with them, the political logic of cross-class, cross sector coalitions is weaker.

The US case shows the way preferences interact with politics to shape the national production system. The economy has been since its early origins very heterogeneous : larger farmers and smaller ones, in quite different climates with varied markets, widely dispersed across the country ; manufacturers of all kinds and sizes, again widely dispersed ; workers of many kinds, employed in a range of industries, similarly dispersed nationally. With so many varied economic situations, it is not surprising that the US did not generate centralized economic structures. No economic actor or actors were able to create a particular approach that would dominate American policy-making. In the late 19th century, the trusts and large banks formed a system that looked very much like Germany. They were unable to absorb large sectors of their economy into that arrangement: farmers especially, who provided an important support for populist agitation, but also other social and economic elements of society. The American political system reinforced these interest group tendencies by providing access into politics for a wide variety of groups: federalism, fragmented power prevented control by hierarchical producer groups.

To sum up, the preferences argument derives the politics of the varieties of market economy from group preferences and interests. Its aggressive form sees the institutions as arising from preferences; Rogowski ([1987a]; [1987b]) argues the small democracies switched to proportional representation electoral systems in order to create the consensus mechanism that engagement in world trade required. The more muted versions show preferences and institutions as interacting in a complex strategic game (Gourevitch [1999]). Both reject the aggressive version of the institutions argument which eliminates the role of preferences and interests altogether.

Social Networks

An important research tradition on comparative political economy calls attention to social structures and networks to understand key features that differentiate countries. Levy [1999] for example argues that the weakness of intermediate associations in French society constrains the state in carrying out its economic objectives. Where the German state can turn to a dense network of business and labor associations to perform key functions (standard setting and enforcement, worker apprentice training, price and production controls), the French state lacks such structures and cannot administer the same policies. Zeigler [1997] shows the way professional groups resist or support change by asserting their deep commitments to customary ways of approaching problems (Herrigel [1996], Saxenian [1994], Locke [1995], Sabel and Zeitlin [1997]) in various ways explore the importance of variation in economic arrangements within a country – diversity between centralized and decentralized forms of economic organization makes a country better off than having a single dominant order with little variation. Schaede [2000] explores the role of intermediate associations in shaping the choice of and implementation of economic policy in

Japan. Culpepper [2002] explores the ability of states to overcome weaknesses in civil society.

In this interesting line of reasoning, political mechanisms are by and large not the major focus. The arguments stress interactions: public policy is influenced by the capacities in civil society, which constrains or enables as the case may be. Social networks influence the structure of options. They may as a result influence preferences for policy many variables interact, so it is difficult to unravel the mechanisms at work. Political structures encourage or inhibit social networks: Tocqueville's argument was that the centralized state of Louis XIV destroyed civil society, which then imposed limits on what the state could do. The more powerful it became, the more it was needed. Social networks engender attitudes and relationships, which in turn support the state structures. States may seek to develop network relationships but this is difficult to do. Culpepper [2002] explores the efforts of the French state to do this.

The social network argument blends into cultural explanations, but is different from the general values version of these. The general values version refers to ideas prevalent in a particular society that explain its choices: thus ideas about individuals, competition, hierarchy, authority. The social network argument focuses on specific social institutions and their activities.

One common argument in these debates lies in between: the legal cultures argument – the contrast between common law and code law. The former is associated with LME systems, the latter with OME. There may be an empirical association, but it is not clear what the causal mechanism is. Some researchers doubt the empirics and reject the causal argument (Rajan and Zingales [2001]).

IMPLICATIONS FOR GLOBALIZATION AND CONVERGENCE

This paper has focussed on seeking political explanations for differences in National Production systems. The discussion has some implications for the debates about globalization and convergence.

Political systems will mediate the impact of world economic forces on national politics.

What markets « demand » of countries is refracted through the polity, which can chose among divergent responses. Political preferences will vary according to local conditions, and will be aggregated differently according to national institutions. Politics will therefore block uniformity.

There Is No « Best Practice » or Single Optimum, but Rather « Specialization » Among Alternative Modes (Boyer [2002] ; Berger, Dore [1996] ; Gourevitch [2001]).

Convergence theorists assume there is a single best practice, toward which the market pushes all players. Varieties of capitalism, as well as regulation authors, disagree with this assumption. Each system may have has its own effi-

ciencies, its own characteristic strengths along with its own characteristic weaknesses. If so, then competition will not drive all but one system out, but rather, will provide rewards to each, if indeed it has some kind of comparative advantage. If competition rewards differences, it may even accentuate differentiation, rather than drive convergence. Indeed, is this not what we should expect from the logic of specialization – rewarding of differences, not convergence? The logic of the market, as Adam Smith noted, lies in specialization. The division of labor improves productivity and the division of labor is completely a matter of specialization and trade. Production systems are a form of specialization – a technology at the national level. International competition will thus intensify the division of labor. Bhagwati among economists, Berger among political scientists, and Dore among sociologists, have each argued during the last decade that the logic of differentiation and specialization went against the notion of convergence (Bhagwati [1996]; Berger, Dore [1996]; Dore [2000]).

Global production networks accentuate this trend. Firms disaggregate the components of a product, undertake these in separate places, then integrate them into final assembly in yet another. (Gourevitch et. *al.* [2000]; McKendrick et *al.* [2001]). Globalized production networks by firms reinforces the logic of divergent national production systems. If each country has a comparative advantage in its production system (a particular strength), then firms can spread the location of these component activities around the world, according to the comparative advantage of each country. Hall-Soskice provide an excellent example of this : GM (an LME firm) picks Germany for a motor factory, despite the high costs of operating there, because of the extremely high quality of precision manufacturing it wants for that component.

Comparative Advantage and the « Terms of Trade » Between Alternative National Production Systems

Specific features of societies' institutions thus generate national production systems. These can coexist in the world if each is able to acquire a comparative advantage. This can lead to shifts in the terms of trade between them. The concept of « terms of trade » developed to express the prices of goods in relation to each other : so much copper ore or bananas for so many autos. Thus developing countries that export primary products do well when the returns to these rise, and suffer when the balance shifts in favor of the advanced manufacturing products they import.

The same idea can be applied to national production systems. NPS are socially constructed factors of production. The pioneers of trade theory saw factors as natural endowments, and demonstrated the law of comparative advantage to explain the wealth-creating consequences of trade. Over time, theorists have expanded the elements that influence comparative advantage. Increasingly they saw that societies could influence their factor endowments: education, infrastructure, savings rates, macro and micro policy – and that all of these could increase (or, if done badly, decrease) the productivity of labor, of land, or

of capital. The NPS concept can be seen as another step in this process of expanding our notion of societal construction of factor endowments. It now includes the tissue of institutions, the web of interconnections, the variety of institutions that influence the specificity, mobility, and productivity of the factors of production. The national production system can be seen as process innovation – analogous at a larger scale to the assembly line, or just-in-time systems, which improve efficiency by the organization of the parts of the system.

With this idea in mind, we can speak of the terms of trade between different production systems. That is, if OME and LME are highly aggregate composites of the socially constructed elements of factors, then we can speak of the exchange of products or product components between them, in the same way we would discuss coffee traded for autos. OME's specialize in those products, or components of products, that benefit from the high investment in specific assets (car motors for example). LME's specialize in those products that benefit from general unspecific assets – new computerized applications for example.

We can then suppose that the terms of trade between these families of products, hence between the National Production Systems will shift back and forth as they do with coffee and autos. In some periods, comparative advantage may lie with rapid innovation and the absorption of new technologies, thus the fluidity of the LME systems. At other times, it may favor precision manufacturing and systematic improvement of known technologies, thus the OME systems. The balance may shift back and forth over time

This may well describe what has happened in recent decades, as dynamism has shifted back and forth between the US and the German/Japanese models. At present the US seems dominant, but will this last forever? Other countries could converge on the US model, adopting and adapting its technology and methods. Conversely, countries could retain their models, but the advantage could shift again, from the LME and rapid change, toward stable development and OME. This idea could be taken backward – with a typology of alternative production systems and a way of measuring their returns, we can work backwards in time, identifying the prior periods of oscillation between one system and the other. The logic of the MSI approach compels us to undertake research in this direction.

Sequences vs. Alternatives

The notion of complementary co-existing forms with shifting terms of trade allows us to think in a different way about trajectories of economic development and the « choice » of country strategies. The dominant tradition has been to see development models as a matter of « sequence » dictated by the interaction of the world economy with national institutions. According to this view, countries « chose » only in the sense of playing their historically assigned role or not, but actually had few options among alternative forms; they developed according to the logic of their timing in an historical sequence. The logic of the

MSI approach shifts our perspective. Rather than sequences, the MSI discussion suggests shifts back and forth among alternatives which remain in place over time, and which do rise, fall, and reemerge.

The Effect of Each Variable Depends on the Others

Research on specific features of economic institutions have often treated them in isolation from other variables. A notable example is the literature on Central Bank Independence and inflation rates. Hall and Franzee [1998] show that impact of monetary policy is mediated through the other institutions of German economy: centrally shaped wage bargaining which constrains wage demands to productivity increases; the union structure; centralized industry associations and so on. Iversen and Soskice [2000] show that the applicability of a rational expectations model – in brief that fiscal policy is useless because the demand stimulus is perfectly expected, thus the effect of any deficit stimulus is nullified – turns on the degree of wage and price elasticity in the economy, which is in turn shaped by many political and institutional variables. Thus these other institutions need to be included in an overall analysis of national economies.

The interdependence of variables has significant implications for politics. Subsystems (labor, welfare, prices, training, corporate governance) interconnect. These mean each participant has an investment in all of the elements of the system. That means alliances may occur that cut across « class » lines: business support for welfare and training systems, for example, even if these are costly. If, conversely, the connection among subsystems is looser, political cleavages may be more fluid or class based.

Change Is Interdependent

One dimension of the system cannot be changed without altering the others. This point may seem obvious to the reader, but it bears emphasis, and reflection on its implications. The previous point was that the dimensions cluster and that their effect or impact turns on the characteristics of other variables. If that is so, then one cannot alter one dimension without altering the others. Streeck (1997) has argued this for many years in connection with the German worker training system. Many foreigners look admiringly at this system, for its technical training by public schools of skilled craftsmen and mechanics, for its ability to match workers with jobs, for the very high degree of training given to workers, and for the very great investment in blue collar workers. The American system by contrast does not link workers to jobs, does not invest as heavily in on-the-job worker training, and neglects blue collar workers in comparison with the attention it pays to higher education at the college and university level. The German training system is connected to the precision manufacturing success of that economy, while the American training system is linked to the comparative weakness on the US side. Some observers have argued for the transfer of the German model to the US, but interdependence of these variables means

the apprentice system cannot be moved to the US without all the other features of the German economy: the apprentice system is linked to job stability, which is connected to a highly regulated labor market, limited competition, corporate governance rules, etc.

As trade and specialization interact, as the division of labor intensifies, we are likely to get more calls in each country for adoption of one or another aspect of the economic system of other countries: improve the venture capital model in Germany, worker training in the US, incentive pay in Japan, child care and health benefits in the US, and so on. The logic of the varieties of capitalism literature suggests such transfers will indeed be difficult: the clustering pushes all dimensions toward one equilibrium point or another. But are they impossible? What aspects of the system can be moved without upsetting the balance? Are there relative « firewalls » that protect the core of one part of the subsystem if another part is changed? This is an important area of research.

International Trade Disputes: Regulatory Policy

- International regulatory disputes. National production systems certainly will influence economic relations among countries by drawing vast areas of domestic policy into the debate. It can be quite difficult to tell whether a regulation is a key part of a productive system or an obstacle to trade – or both. As international trade deepens, those who wish to expand trade may argue for harmonization of regulation – as has been happening in the EU. But if there is to be harmonization, around which standards and principles will that agreement be : those of an LME or those of an OME ? We can expect countries to argue for the adoption of international standards that mirror their domestic practices, as it is on these that they have the greatest comparative advantage, and face the lowest transition costs. Countries will resist changes that force their companies and citizens to make costly changes.

- International institutions, public and private. As arguments over national production systems operate in international disputes, they raise some interesting questions on the « governance » problem understood as « levels » of dispute management. (Cowhey [1995]; Upham [1987]; Kahler and Lake [2002]) Will the debates be handled internationally, and through highly structured institutions like the WTO or the EU? Or will it be done bilaterally, or regionally? The complexity of the issues may encourage bilateralism; it may be easier for just a few countries to work out their differences rather than multi-national bargains.

- a) Private or self-enforcing? Many elements of corporate governance are so complex it is hard to imagine a global bureaucracy able to enforce rules. Decentralized mechanisms are likely -- for example in arenas of accounting. This issue area thus interacts with discussions about self- or private enforcement. It will turn on national political systems' motives to create rules that conform to global principles and the domestic mechanisms to enforce them, and on private firms' desires to do the same.

b) International enforcement. Even private or self-enforcing systems often rely upon some « shadow of the state » as a court of last resort. What will these be and how will they grow? European anti-trust is one arena that can give us some glimpse of the issues and problems this may pose. Without much consensus, these institutions are likely to be weak. (Goldstein, Kahler et al. [2000]).

CONCLUSION: THE OWL OF MINERVA?

The new literature on the varieties of capitalism provides strong reasons to expect national differences to persist. Yet, we may soon hear, before we see, the wings of the Owl of Minerva. We can see forces at work that, to switch metaphors, erode the system. It seems easier at the present moment to see how OME's could be eroded into LME's rather than the reverse: the construction of an OME out of an LME. How might this happen?

One can imagine a sequence where financial liberalization undermines the OME systems. As Shinn [2001] argues, investors from outside the OME systems demand greater transparency, or put a premium on those firms that lack it. International holders of capital show preference for systems with LME shareholding rules. The flow of money into countries weakens the grip of banks. Governments are pressed by EU and other rules to balance their books, so they privatize public firms. This increases shareholding which reinforces the demands of external shareholders. Governments become pressured to weaken the OME regulatory system. Changing situations shift incentives, and the system starts to unwind. The globalization of finance becomes the camels nose under the tent.

The counter argument is that the components of the system are able to act as firewalls, or circuit breakers, against such a process. Financial liberalization can occur in systems which preserve a lot of the other elements of the production system. This seems to be the « small countries » model of Scandinavia and Benelux – integration in the world economy strengthens the social policy by reinforcing the social solidarities that economic integration requires. If this more limited change is the consequence of financial liberalization, this suggests perhaps that the components are not so tightly bundled.

How can we tell which is happening: an erosion, or a recasting and reworking of the OME model? We need to think through some « erosion » indicators? What changes would really indicate a profound shift, rather than reworking? One particularly interesting indicator has to do with corporate governance: the rules that influence the concentration of ownership. American rules scatter ownership of shares, so that institutionalized oversight from outside the firm is difficult; the German model allows high concentration, thus a different pattern of relationships. That seems a strong difference between the systems. Can there be liberalization of shareholding rules without forcing the breakup of concentrated positions and representation by those interests on corporate boards

Most comparativists have a bias toward the preservation of differences – even if the systems change, they are likely to evolve into something different from the current practice of each country, but not necessarily toward the same end point. They will have some things in common, the same way all market economies have banks, money, accounting standards, taxation, etc. Some things will remain different. If we are to predict, we need to specify ahead of time just what would, or would not, be a decisive change. It is the argument of this paper that politics will play a major role in shaping outcomes.

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ABSTRACT

The politics of choice among national production systems

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What explains the substantial divergence we observe in the way market economies structure their systems of corporate governance? This paper focuses on the role of politics. Three types of political mechanisms are examined; political institutions, interest group preferences and social networks. The distribution of countries into liberal market economies (LME) systems associated with the UK and the US and the OME systems associated with Germany and continental Europe seem to correlate with political institutions that are "majoritarian" for the former and « consensual » for the latter. Organised market economies (OME) systems involve substantial investment in specific assets and are thus likely to develop where consensual, coalition politics limits the range of policy variance; majoritarian systems amplify policy variance and thus induce LME systems. Interest group explanations focus instead on group preferences, deriving from path dependent aspects of economic interests and institutions. The social network model examines aspects of civil society. The political factors influence strongly the impact of international economic forces or globalization on countries, allowing for substantial divergence in the way they manage economic pressures.

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