

# VARIETIES OF CAPITALISM AND TYPES OF DEMOCRACY\*

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The relationship between capitalism and democracy has been an extensively studied and “essentially contested” one. We now know that all “real-existing” democratic polities (REDs) also have “real-existing” capitalist economies (RECs), but that not all capitalist economies have democratic polities.<sup>1</sup> From this we can infer that some Variety of Capitalism (VoC) may be necessary for some Type of Democracy (ToD), but not sufficient. Inversely, we can infer that having a democratic political regime is neither a necessary nor, even less, a sufficient condition for the survival or success of a capitalist economy.<sup>2</sup>

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\* This essay is the result of a comparative research endeavor, originally called the Production Regime Project, “is **there a new and more correct name?**” headed by Hideko Magara and Masanobu Ido from Waseda University and funded by **please insert name**. We are indebted to both of them and to the other participants in this project: Laszlo Bruszt, Helen Callaghan, Christopher McNally, Takashi Oshimura, T. J. Pempel, Carlo Trigilia **have I left anyone out?** for a simulating set of papers and discussions. Without the spider-webbing wizardry of Alexandre Trechsel, we would not have been able to make it.

<sup>1</sup> A ‘real-existing’ democracy (or RED in our terminology) has three characteristics: (1) it calls itself democratic; (2) it is recognized by other self-proclaimed democracies as being “one of them;” and (3) most political scientists applying standard procedural criteria would code it as democratic. The same criteria apply to ‘real-existing’ capitalism (REC). Their resemblance to Democracy or Capitalism as advocated in theory or described in many civics and economics textbooks is coincidental. Both are the products of a complex set of historical compromises that have resulted in ‘mixed’ regimes.

<sup>2</sup> Indeed, there is a burgeoning literature on the emergence and even success of so-called “Authoritarian Capitalism” with China and Vietnam as leading exemplars, and Russia as a more ambiguous one. **Christopher: Is there a standard source here?**

Capitalism would seem, therefore, to be logically (and probably also temporally) prior to democracy.<sup>3</sup> Its initial historical agent, the bourgeoisie, played a central role in the transition from autocracy (at least, in Europe) and its subsequent side-product, the industrial proletariat, was a key protagonist in expanding further its inclusiveness and scope.

But this tells us little about the relation that may develop historically (and, especially, exist contemporarily) between different VoCs and different ToDs. We have a general warrant for assuming that they are likely to be related – if only on the grounds that if capitalism is related to democracy, then subtypes of both are also likely to be related to each other, and that the VoC is probably going to be the causal agent – at least, initially.

If this logical assumption were not enough, we also have the essays in The Federalist Papers written by Alexander Hamilton at a particularly crucial early stage of the choice of regime-level institutions for the United States of America that clearly argue in favor of such a connection. Unless the USA adopted a set of “reasonably centralized” and “calculatedly limited” institutions of a “republican” form of democracy, he argued it will not be capable of sustaining and, much less, furthering its capitalist development. We do not know the counter-factual answer to what would have happened had the USA retained its ‘confederal’ set of more dispersed and directly democratic institutions, but we certainly can testify to the subsequent emergence of a vigorous liberal market variety of capitalism.<sup>4</sup>

## Four Casual Mechanisms

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<sup>3</sup> There is one possible exception in early modern Europe, namely, Switzerland. This country managed to practice a peculiar type of small scale (communal and cantonal) democracy before it became capitalist, although it should be noted that the cantons in the plains (as opposed to the original mountain ones) were oligarchic patrician regimes and they were the first to become capitalist. Of course, in the classical case of Athens, democracy also preceded capitalism, although there has been a recent debate in the Economist about the nature of this sequence and the prior importance of silver mining. [Cite/](#)

<sup>4</sup> Although it is worth mentioning that the United States VoC only really “took off” after an intervening political event of great importance, namely, the Civil War and its suppression of the Slave Economy of the South.

What then are the causal mechanisms that might be connecting REC and RED over more or less lengthy periods of time? What are the generic processes that link the two and can therefore be relied upon to explain why changes in one VoC or ToD will produce corresponding changes in each other?

1. The most obvious mechanism is “**functional adjustment**,” namely, that the reproductive and growth needs of REC cause a predictable and corresponding change in RED. The ToD, therefore, consists of an apposite political solution to the needs determined by different VoCs – perhaps with an intervening lag in time due to resistance by those actors who benefit from the previous ToD. Moreover, it is often assumed that once this functional adjustment has taken place, both REC and RED enter into a state of equilibrium until some exogenous event or process disturbs their relationship.

Only a moment’s historical reflection should suffice to discard the omnipresence and efficacy of this mechanism. Needs have to be perceived by actors; theories have to be invented to explain why particular changes in institutions or practices will produce the supposedly necessary effects; individuals and organizations have to be mobilized to act collectively in conformity to these perceived needs and theories. Needless to say, at every stage, conflicts are likely to emerge among actors with varying capacities to defend and advance their interests – and different ToDs enhance these capacities and channel them through pre-established representative institutions and decision-making agencies. The end result is most probably a compromise among political forces that will almost surely be less than optimally functional from the perspective of the needs of REC.

2. The next most obvious mechanism is “**path dependency**,” namely, that whatever the initial relationship between REC and RED, the actors involved will increasingly benefit from reproducing that past relationship – even when that it is sub-optimal from the perspective of capitalism and/or democracy as a whole. Some combination of sunken material costs, entrenched habits of behavior, established normative justifications, legal-constitutional obstacles, power resources of existing beneficiaries and the sheer uncertainty of the costs and benefits involved in shifting to a different relationship in the future contributes to keeping both the VoC and the ToD on the same

evolutionary path. All one should expect are minor incremental adjustments on both sides of the equation.

Again, historical reflection suggests that, in terms of frequency of occurrence, path dependency has been more likely than functional adjustment, but it does not always prevail. Incremental changes in either REC or RED can accumulate and gradually affect the market competitiveness or the balance of political forces to the extent that a new relationship emerges – usually as the unintended product of reform measures designed for other purposes. In a recent book, John Cambell (2004) has re-introduced the French expression, **bricolage**, in order to capture the process of institutional change within the limits of path dependency – while noting that, given the accumulation of such experiences plus the unintended consequences that can generate, these seemingly incremental and tentative efforts at repairing the practices embedded in a particular path can eventually result in the shift to another path.<sup>5</sup>

3. More infrequently, **critical junctures** can occur – either as the result of exogenous events or endogenous contradictions – that may compel actors to shift their expectations to a dramatically different path.<sup>6</sup> Usually those advocating such a shift can be found among the persons marginalized and victimized by the previous connection between VoC and ToD or, more likely, some Type of Autocracy (ToA). But not infrequently, firms, parties, movements and persons who were previous beneficiaries and even supporters of the *ancient régime* under special circumstances – international war and severe economic depression have been the most common – may defect from the *statu quo* and mobilize disaffected and impotent groups. On the basis of either the desperation of past losers or the anticipated reaction of past winners, a critical mass of actors emerges that is willing to bear the uncertain ‘transition costs’ of moving toward different institutions of either REC or RED. The normal term for such a change, when it involves widespread violence and encompasses a wide range of institutions, is **revolution**. Perhaps because the

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<sup>5</sup> Institutional Change and Globalization (Princeton: Princeton University Press, 2004), p. 69-74.

<sup>6</sup> For an innovative effort to conceptualize and analyze such a moment, see T. Bodenstein and G. Schneider, “Capitalist Junctures: Explaining economic openness in the transition countries,” European Journal of Political Research 45 (3), pp. 467-498.

countries we are interested in seem incapable of accomplishing changes in institutions of such a magnitude, we tend to exclude this generic mechanism from consideration.<sup>7</sup> Let us think in terms of the mechanism of **radical reform**. However, the “real-existing socialisms” of Eastern Europe and the former Soviet Union remind us that something like revolution does exist – although as a mechanism for the shift from a variety of non-capitalism and a type of non-democracy.<sup>8</sup>

4. In the present context of rapidly expanding communications across political boundaries, another causal mechanism has become increasingly significant: **diffusion**. One can no longer assume that political and economic units are coincident with each other at the national level and, hence, that national actors choose their institutions only on the basis of their own historical legacies or contemporary endowments. Every unit is in contact with each other and, thanks to globalization, is in competition with each other to some extent. Messages circulate freely and consequentially, especially those that contain some information about “best practices” that are alleged to convey comparative economic or political advantage. The conviction that the VoC or ToD of one’s competitor is somehow superior can provide a powerful incentive for imitation – and the fact that it is so demonstrably superior serves to reduce both the search costs and uncertainty of benefits that previously inhibited switching to a different path.<sup>9</sup>

As strong as the urge to mimic winners has become, it has also become equally apparent that this is not an easy task. Somewhere in the specification of the “proper/optimal” relationship between VoC

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<sup>7</sup> Although I would like to remind the reader that the very first case in the most recent wave of democratizations was Portugal where it was (at least, initially) accompanied by violently induced, large scale changes in both economic and political institutions.

<sup>8</sup> There has been some discussion about whether the transformations in CEE and the FSU deserve the qualification: revolutionary. Timothy Garten Ash has tried to resolve the issue by calling them: **refolutions**, fusing the concepts of revolution and reform. “Reflution: the Springtime of Two Nations,” New York Review of Books, July 5, 1989. Perhaps, this is what we mean by **radical reform**.

<sup>9</sup> Although one should add that allegedly superior models of the relationship between capitalism and democracy have shown a remarkable tendency to be short-lived. Contemporary history is littered with the wreckage of such national successes, all of which were subsequently proven to be either vulnerable or inimitable or both.

and ToD, imitators have often ignored the contextual features that made the original model work well. Strict transfers of such practices or institutions rarely produce similar effects and by the time the imitators have understood and incorporated these seemingly extraneous features, the reforms become so transformed and compromised in the process that they make only a marginal positive contribution, if one at all. John Cambell has labeled such mechanisms of cross-border adaptation to diffusion as “**translations.**”<sup>10</sup>

### **One (Complex) Operationalization**

Obviously, a compelling answer to the nature of this VoC - ToD relationship hinges critically on how one specifies the Varieties and Types and how one subsequently derives valid measures for their components. The purpose of this essay is precisely to define and to operationalize these variables.

The simplest way to do this would be to dichotomize them: VoC becomes (1) **Liberal Market Economies** (LMEs);<sup>11</sup> and (2) **Coordinated Market Economies** (CMEs);<sup>12</sup> ToD becomes (1) **Majoritarian (or Westminsterian) Democracies** (MDs); and (2) **Consensual (or earlier Consociational) Democracies** (CDs).<sup>13</sup> And, sure enough, when these are cross-tabulated, a rough

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<sup>10</sup> Institutional Change and Globalization (Princeton: Princeton University Press, 2004), pp. 79-86. I have excluded from my list of mechanisms the one that is most widely diffused among contemporary North American political scientists (and, for some time, among their economist brethren), namely, **rational choice**, for the simple reason that it is not a causal mechanism – at least not until its proponents shift from merely stipulating that individuals with perfect information for surveying alternative courses of action, assess the constraints they face and select that one which optimizes their self-interest. Only when they succeed in actually demonstrating empirically that actors do act in this matter and have the “preferences” routinely attributed to them do we have reason to consider it a potential causal mechanism.

<sup>11</sup> I would prefer “Competitive Market Economy” – but that would produce two CME acronyms.

<sup>12</sup> Soskice, 1999; Hall and Soskice,

<sup>13</sup> Lipjhart

correspondence emerges.<sup>14</sup> It is stronger between LMEs and MDs, as exemplified by the tight Anglo-American-Canadian-Australian cluster, than between CMEs and CDs, formed more loosely by the Scandinavian countries, Austria, Germany and Switzerland. However, a substantial number of rich capitalist economies and stable political democracies prove difficult to classify. I suspect that if one were to apply this mode of analysis to cross-sections of a longer historical period, the association would prove weaker and the number of “unclassifiable cases” would be much greater.

Recently, there has also been a flood of econometrically inspired analyses that have “proven” that specific political traits of well-established democracies: electoral laws, party systems, partisan complexion of governments, executive formats, territorial arrangements, etc. are significantly associated with one or another of the components of VoC and with differences in aggregate performance: growth, employment, public expenditure, income inequality, etc.<sup>15</sup>

For the purpose of this essay, these findings are simply not convincing. The LME/CME and MD/CD dichotomies are too primitive in their attempt to capture variation and, as we shall see, too inconsistent in their allegedly covariant sub-components.<sup>16</sup> The bi-variate cross-tabulations or regression analyses of these isolated variables also violate the central principle behind the effort to conceptualize both VoC and ToD – namely, that what counts are

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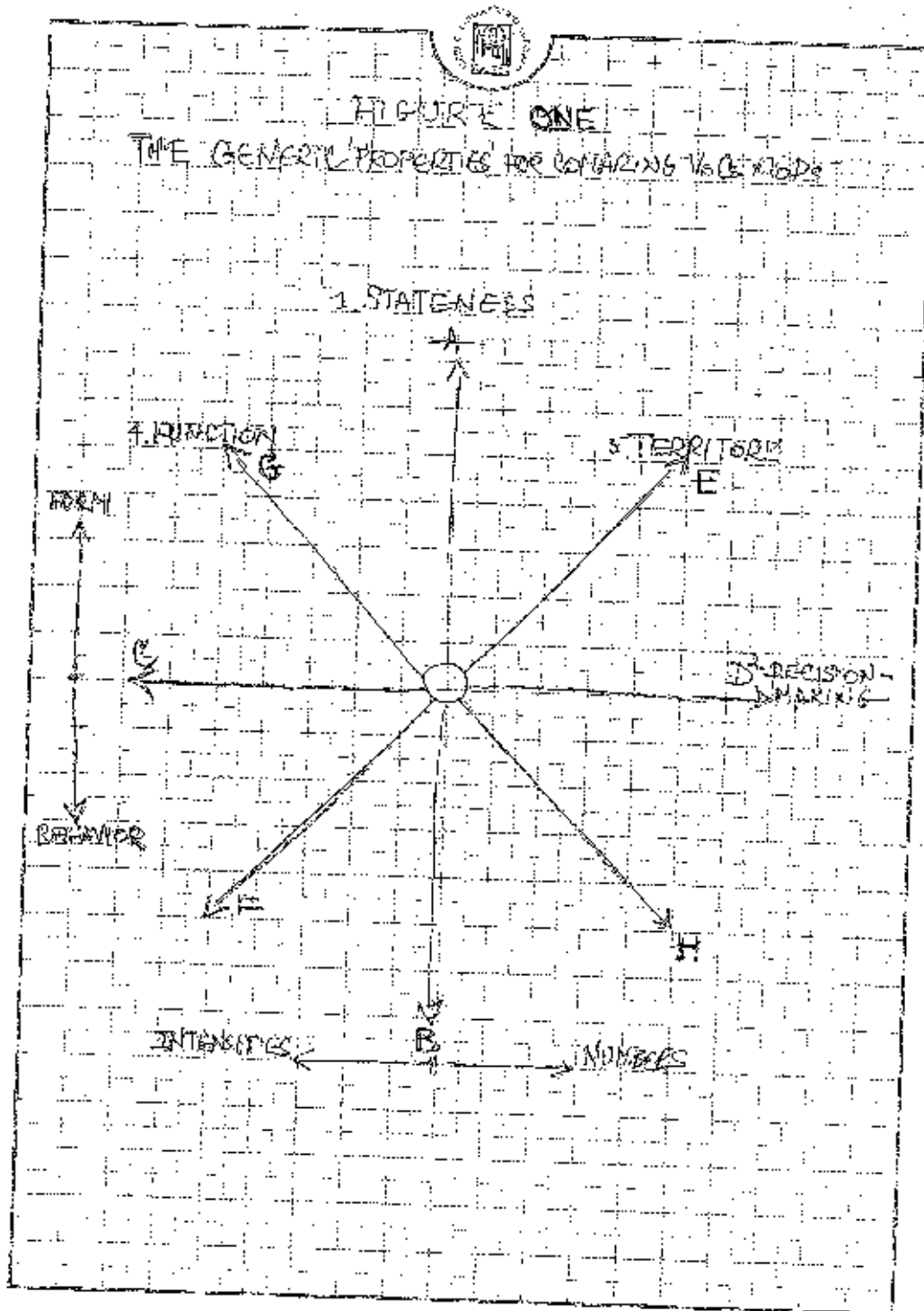
<sup>14</sup> Amable, also ...

<sup>15</sup> Good examples of this approach are a classical article by Torsten Persson, Gerard Roland and Guido Tabellini, “Comparative Politics and Public Finance,” *The Journal of Political Economy* 108, 6 (Dec. 2000), pp. 1121-1161 where presidentialism and legislative cohesion are used to predict different levels of state spending, analogous to the difference between LMEs and CMEs. Peter Gourevitch and Michael Hawes, “Political Institutions and National Production Systems in the Globalized Economy,” paper presented at the conference on “Business Interests and the Varieties of Capitalism: Historical Origins and Future Possibilities,” University of North Carolina, Chapel Hill, NC, November 2-3, 2001. Peter A. Hall, in his “The Evolution of Varieties of Capitalism in Europe,” in Hancke (ed.), pp. – is an important “qualitative” example of approaching this issue from a more comprehensive perspective in which variables such as “partisan complexion of government” differ in their effect depending on their association with other regime characteristics. He is also one of the few to recognize “reverse causality” in which the VoC can influence the ToD, although he concludes: “Over the long term, however, political feedback effects from the structure of the political economy sustain distinctive VoC.” p. 81.

<sup>16</sup> For example, Matthijs Boagards, “The Uneasy Relationship between Empirical and Normative Types in Consociational Theory,” *Journal of Theoretical Politics* 12 (4), pp. 395-423.

precisely not single traits but distinctive clusters or profiles. There is no theoretically grounded reason to expect that, say, the electoral system or the banking system alone will produce reliable and significant variation in macro-level outcomes across all units. What counts is the “variety” or “type,” i.e. the *ensemble* of traits. It is only when the single trait is embedded in a more encompassing whole that the anticipated effects are likely to emerge and to persist. For this reason, only an empirical technique that is capable of capturing, displaying and analyzing the multiple variables that are conceptualized as forming a distinctive variety or a type will suffice. Moreover, provided the scale of measurement is more discreet than a dichotomy, this technique should provide a reliable basis for generating intermediate varieties/types and not just the proximity of single cases to one or another of extreme varieties/types.





[Place Figure One Here]

In the analysis that follows, VoC and ToD are explicitly treated as multi-dimensional economic and political constructs. Each of the two will be initially disaggregated into four + two generic dimensions (“radials”) that are shared and then each of these radials will be defined in terms of two sub-components (“spokes”), one based on formal organizational properties and the other on observed behavioral outcomes. Each of the twelve spokes will then be operationalized by apposite quantitative measures and only when they have been tested for patterns of association will it become apparent whether the dichotomous LME/CME and MD/CD clusters really exist and are capable of bearing the inferences that have been associated with them.

### **Four + Two Radials**

The literatures on capitalism and on democracy are not only prolific, but they are rich in suggestions concerning what dimensions of variation are relevant for proceeding *per genus et differentiam*, i.e. for distinguishing sub-types of each of them. Political science has been especially attentive to this conceptual challenge and to uncovering significant differences in the stability of regimes, the distribution of benefits and the quality of performance according to sub-types of democracy. Economic science once it fell under the hegemony of neo-liberalism abolished such a concern with institutional and behavioral differences<sup>17</sup> and postulated a single trans-national, trans-cultural and trans-historical model of capitalism that served as an almost universally accepted basis for further deductive assumptions. Only very recently has the thought emerged that there might be different varieties of “it” with different rules and relationships and that these other configurations might even be capable of persisting as long and performing as well as the neo-liberal one. Those scholars who have jumped on the VoC bandwagon in recent years, however, have been almost as prolific in suggesting dimensions of variation as their ToD forerunners.

Our task has been to shift through these suggestions and to try to find a limited number of generic dimensions that potentially apply to both

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<sup>17</sup> And, accordingly, it abolished the subject of “Comparative Economic Systems” from its curriculum.

VoC and ToD. The four + two that have been selected seem to fit that bill, but they are but a first approximation.

1. **Stateness.** This is the most obvious variable that both capitalism and democracy have in common. Without it, neither would exist nor persist. Only the most hardcore libertarian or anarchist could argue that the state should be abolished or allowed to wither away – unless he or she would also prefer to destroy both capitalism and democracy. Their common embeddedness in a system of public authority that is capable exercising (even of monopolizing) legitimate coercion over a distinctive territory is a *sine qua non* for ensuring that market contracts will be observed and that elected officials will be able to respond effectively to citizen demands. Economic and political actors will differ over how much and what kind of stateness is desirable: liberal individualists will argue that “He who governs least, governs best” and social collectivists will say that “We who govern most, govern most fairly,” but neither will deny the need for some of it.<sup>18</sup>
2. **Rules for Decision-Making.** Both REC and RED have to make decisions about the allocation of resources – private and public. In the former case, most of these are disguised as virtually invisible and routine choices by producers and consumers interacting in markets of differing degrees and types of competition. In the latter, they usually involve highly formalized and controversial choices made by citizens when voting in elections and by politicians when governing in public offices – and these are converted into explicit laws and regulations that are binding on everyone and not just on those that made them. In both cases, however, what counts in

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<sup>18</sup> Which makes it all the more surprising that the VoC literature makes virtually no reference to this obviously crucial ‘radial’ property. Presumably, this was the result of a momentary distortion due to the hegemony of neo-liberal ideology, but even if one restricts one’s thinking to the last thirty years in rich capitalist democracies, there is abundant evidence that state intervention had not disappeared from the national practices of capitalism. Admittedly, the trend in most cases was toward privatization and deregulation and the policies decided (but not always implemented) by the EU did place greater restrictions on the overt use of public favoritism and funding by its member governments -- nevertheless, there has been plenty of evidence of activity by state officials during this period. Some of these interventions, protections and subsidies were quite overt, even if they disregarded EU, WTO and other strictures. Just imagine trying to classify the agricultural sector anywhere in the OECD as “stateless.”

determining the outcome are the rules under which competition takes place, i.e. who can participate, what resources they can bring to bear and what mechanisms determine the resulting distribution of costs and benefits.

3. **Territorial Representation.** Both economies and polities occupy particular physical spaces such that the location within which their transactions occurs makes a difference – *pace* the recent literature on globalization that pretends that territorial constraints have been eliminated (or, at least, made much less relevant). Consumers and citizens, producers and rulers recognize this and they channel expectations and make demands accordingly, usually through intermediaries that represent their interests. Again, this may seem much less relevant in the case of economic actors.<sup>19</sup> Political actors, as long as they are compelled to operate with the system of national states, are much more acutely aware of the extent of coincidence between the boundaries of private markets and public authorities.
4. **Functional Representation.** At the core of capitalism and democracy lie two intrinsic interest conflicts: (1) between workers and the owners of productive enterprises; and (2) between citizens and the rulers of authoritative institutions. Not uncommonly, the personnel in these two categories coincide or, at least, they occupy mutually distinctive positions of power. To deal with these conflicts, both have developed systems of bargaining or regulating the interaction between organizations representing the functional interests of conflicting classes, sectors and professions. Needless to say, these are not the only conflicts that capitalists and politicians have to resolve in order to perpetuate their dominant status, but they have proven to be the most enduring.
5. **Asset Specificity.** Actors in the economy and polity have different initial endowments and subsequent resources that they can bring to bear in order to influence outcomes. The

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<sup>19</sup> Which helps to explain why the academic discipline of economics can appear to be so utterly indifferent to such factors. Only recently has it “discovered” geography and location.

orthodox “liberal” theories of both realms strongly emphasize the provision of the least specific of assets. These are presumably something that all actors have and can distribute freely in response to any preference: namely, “citizenship” and “consumer sovereignty.” In the real worlds of capitalism and democracy, however, assets are not only less equally distributed, but they involve qualitative distinctions that limit their utility. Depending on type of education, initial career choices, willingness to move, procedures for nominating candidates and barriers to entry and inclusion, some actors can find themselves with personal and collective assets that can only be used for specific purposes.

6. **Gender Discrimination.** Among the actors with different material endowments and cultural resources that can be expected to receive discriminatory treatment in both the economy and polity are women. They were initially excluded from access to ownership and managerial roles in production and citizen roles in collective decision-making. Belatedly and often as the result of collective action, they have improved their status in both domains, although the timing and circumstances of this process have varied considerably across the rich democracies of the OECD. This has left a good deal of variation in the extent to which something approaching gender equality has been realized among them.

### **Eight + Four Spokes**

Having identified the above four + two ‘radial’ properties that REC and RED seem to have in common according to their respective literatures, we can now proceed to measuring their occurrence across 19 of the OECD member countries.<sup>20</sup> The radials of stateness, decision-making, territorial and functional representation, asset specificity and gender discrimination are highly abstract in nature and, therefore, cannot be subject to measurement directly. There

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<sup>20</sup> New Zealand, South Korea and Greece were excluded due to data problems and this should be resolved in future versions of this analysis. Iceland and Luxembourg have been deliberately excluded due to their much smaller size. Other present OECD members such as Hungary, Mexico, Slovakia and Turkey have been excluded due to their markedly different levels of capitalism and democracy.

has been some discussion of potential indicators by analysts of both VoC and ToD, but there is no accepted standard for measuring them; therefore, we have had to select from a number of measures and our choices may not always be the most apposite. Only further experimentation with alternative ones will correct for this possible source of distortion.

Each of the radials for VoC and ToD has been divided into two “spokes.” The first attempts to capture the formal or institutional aspects of the corresponding radial and the second the empirical consequences that might have been produced by those institutions. For example, stateness in ToD is measured first by total central government revenues as a % of GNP and then by the number of government employees as a proportion of the total economically active population. In VoC, it is first measured as the % of the total banking system that is owned by all levels of the state and then by an index of economic liberalization. Our expectation is that the two spokes of the same radial will be positively correlated, but not perfectly so. If there is no correlation and, even worse, if it is negative, the indicators are probably wrong – unless the discrepancy is due to measurement error.

The raw data have been transformed into rank-orders. Since our ‘sample’ consists of 19 OECD member states, each of the ten spokes for VoC and the ten for ToD can only vary from 1 to 19. In the interest of clarity of exposition, we have assigned the top ranking (1) to those countries that, theoretically speaking, score closest to the “**liberal**” ideal and the bottom rank (19) to those that should be closest to the “**social**” end of the continuum. Henceforth, our extremes – for both VoC and ToD – will be labeled as liberal and social capitalism and liberal and social democracy. And the closer a given country comes to obtaining a similar rank-ordering across all of the ten spokes, the more it presumably resembles the ideal-types anchoring the extreme ends of these continua. Those in the middle will be labeled as “hybrids.”

What will first concern us, therefore, is the rank consistency within in each country and then across them. This transformation has several important consequences. It evens out the scores between countries and reduces potential distortion due to outliers. It may even correct

for some measurement error due to minor differences in data collection. It also has the effect of making the data much easier to display visually and to analyze comparatively. However, it also enhances the importance of intermediate cases that might have only minor variations in “real” data and this improves the likelihood of our discovering hybrid or mixed profiles of VoC and ToD – exactly the opposite of the bias built into the usual dichotomous treatment that both have received.

All indicators are scored for values as close as possible to 1990, although none of them are believed to vary greatly from year-to-year. A more thorough investigation of the VoC-ToD relationship would, of course, examine changes in these indicators over a much longer period and presumably contribute to answering the particularly vexing question of causality.

### The VoC Spokes

The following are the operational indicators that have been chosen for the Varieties of Capitalism:

1. **Stateness:** For this radial, there exists a multiplicity of potential indicators all having to do with the intervention (or lack thereof) by public officials, elected or appointed, in the conduct of economic firms. Without a doubt, stateness has declined over recent decades, either as the result of explicit public policy of liberalization and privatization or as the side-product of globalization and regionalization that have undermined the capacity of state institutions to act efficiently and effectively.

VoC 1A. The importance of all banks that are state-owned in proportion to the total holdings of all banks (inverted so that the lower the public holding the lower the rank).<sup>21 22</sup>

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<sup>21</sup> La Porta Rafael, Lopez-de-Silanes Florencio, and Shleifer Andrei, *Government Ownership of Banks*, Harvard University, John F. Kennedy School of Government, Working Paper Series, number swp 01-016

<sup>22</sup> Previously, this might have been measured by the turnover of all publicly owned productive enterprises as a % of total turnover, but there has been so much privatization of this type of business that it seems no longer valid.

VoC 1B. A composite measure of “economic freedom” from public constraints in the form of business taxation, labor relations, and other regulations.<sup>23</sup>

2. **Decision-Making:** Along this dimension the major discussion in the recent literature has focused on the nature of “corporate governance,” i.e. whether managers of private enterprises are subject to greater influence and control by shareholders or whether they are protected by legal or cross-holding arrangements. A more standard concern has been with the degree of market competition and the role of potentially oligopolistic large firms.

VoC 2C. Composite indicator of corporate governance.<sup>24</sup>

VoC 2D. Indicator of concentration of ownership in largest firms.<sup>25</sup>

3. **Territory:** Economists have generally not been concerned with spatial referents in their work. By-and-large, where enterprises are located across an entire economy and how this has affected their external political and social relations has not been considered important – even though there does exist a lively discussion in economic sociology about the impact of precisely these features. In the absence of any potential indicator or any available data, we have chosen to substitute measures for the

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<sup>23</sup> All data are from 1995’s Heritage’s Economic Freedom Index but for Belgium, Denmark, Finland, Netherlands, Norway and Switzerland that are for the year 1997. (Cf. <http://www.heritage.org/Index/Explore.aspx>)

<sup>24</sup> From Peter Hall and Daniel Gingerich, 2009, Varieties of Capitalism and Institutional Complementarities in the Political Economy: An Empirical Analysis, *British Journal of Political Science*, 39, 3, 449-82, p. 458

<sup>25</sup> From Eelke de Jong and Radislav Semenov, 2006, Cultural Determinants of Ownership Concentration Across Countries, *International Journal of Business and Ethics*, 2, 1-2, pp. 145-165 – Table 1: Levels of ownership concentration across countries, p. 148



nature of the financial system which everyone seems to agree is a very important radial for different VoCs.

VoC 3E. Market Capitalization as a percentage of GNP.<sup>26</sup>

VoC 3F. Composite indicator of Shareholder Rights.<sup>27</sup>

4. **Function:** All economies are composed of multiple sectors that produce different goods and services and these tend to have different forms of organization at the firm level and different degrees of competition and coordination at the aggregate or ‘meso’ level. Contrary to the literature that tends to assign a single ‘generic’ label to the entire VoC, e.g. “liberal” or “coordinated,” these chains of producer to producer relations may vary considerably within the same national economy and, if so, their relative importance becomes a crucial determinant of the VoC. Moreover, ‘natural’ forms of protection from internal competition as well as governmental forms of protectionism from external competition tend to distinguish between “sheltered” and “exposed” sectors.

VoC 4G. Index of Labor Coordination.<sup>28</sup>

VoC 4H. Indicator of Employment Protection.<sup>29</sup>

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<sup>26</sup> From Ross Levine, World Bank, Table 1: Bank and Market Indicators of Activity and Size, Column Market Capitalization (Size)

<sup>27</sup> From René M. Stulz, 2005, The Limits of Financial Globalization, *ECGI – Finance Working Paper No. 75/2005* – Table 1: The Data, Column “Antidir” or anti-director’s rights (i.e. the LLSV index of minority protection).

<sup>28</sup> From Peter Hall and Daniel Gingerich, 2009, Varieties of Capitalism and Institutional Complementarities in the Political Economy: An Empirical Analysis, *British Journal of Political Science*, 39, 3, 449-82, p. 458

<sup>29</sup> From John Kelly and Kerstin Hamann, 2007, Does Varieties of Capitalism Explain National Patterns of Labor Relations?, Paper prepared for delivery at the Midwest Political Association Meeting, Pal House, Chicago, April 12-15, 2007, Table 4 “Employment protection legislation in 19 OECD countries late 1980s-2003,” Column Late 1990s –itself from (and completed by us with) *Employment Outlook*, 2004, chapter two “Employment Protection Regulation and Labour Market Performance,” p. 112, Table 2.A2.1. “Indicators of the strictness of employment protection for regular employment”, Column Overall strictness of protection against dismissals, Late 1990s (cf. <http://www.oecd.org/dataoecd/8/4/34846856.pdf>)

**5. Asset Specificity:** There has long been a political economy literature arguing that concentrated dependence on a particular commodity has a broad and determinant impact on the VoC. In its most extreme contemporary version, petroleum has been so-called “lootable” assets such as diamonds and rare minerals have produced even more dramatic and perverse outcomes. None of the countries in the OECD sample exhibit such concentrations in their productive or trading systems (with the partial exceptions of Norway and earlier the Netherlands), but they do have significant variation in the domestic importance of different productive sectors and the composition of their exports. Strangely, the VoC literature has focused exclusively on the nature of vocational training and its impact on intra-class income distribution – more perhaps a result of previous research by its authors than of theoretical reflection.

VoC 5I. Percentage of Post-Secondary Students in Vocational Training.<sup>30</sup>

VoC 5J. Earning Inequality among Full-Time Employees.<sup>31</sup>

**6. Gender Discrimination:** The two dimensions upon which ‘real-existing’ capitalism has been accused of systematically discriminating against women involve (1) access to highly ranked and paid positions in the hierarchy of the management of firms; and (2) differences in remuneration for equivalent work.

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<sup>30</sup> From OECD, 2000, *From Initial Education to Working Life: Making Transitions Work*, OECD, p. 170, Table 2.2. “Estimated distribution of upper secondary students by the main education and training pathways after compulsory education (1996 or closest year)”, Column General Education (100-x).

<sup>31</sup> From John Kelly and Kerstin Hamann, 2007, *Does Varieties of Capitalism Explain National Patterns of Labor Relations?*, Paper prepared for delivery at the Midwest Political Association Meeting, Pal House, Chicago, April 12-15, 2007, Table 5, “Gross earnings inequality (90:10 ratios) for full time employees in 19 OECD countries 1980-84 to 1995-99,” Column 1990-94 –and 1995-99 when data non available in 1990-94 -itself from (and completed by us with) *Employment Outlook*, 2004, Chapter three “Wage-Setting Institutions and Outcome”, Table 3.2: “Trends in earnings dispersion, 1980-2001,” p. 141.

VoC 6K: **Women CEOs** <sup>32</sup>

VoC 6L: **Wage Disparity** <sup>33</sup>

Our test for internal validity rests on the rank-order correlations between the two spokes of each of the six VoC radials. They should all be positive since they are supposed to be measuring different aspects of the same variable, and it would be even better if they were “statistically significant,” i.e. not likely to have emerged randomly. Table One demonstrates that the first assumption was correct. As expected, all of the Spearman’s Rho correlations between spokes of the first four radials are positive with the weakest coming between the two indicators of finance capitalism: market shares and shareholder rights, and the strongest emerging between the two indicators of functional or class relations: labor coordination and employment protection.

Table One

Rank-Order Correlation between VoC Spokes:  
Spearman’s Rho

Stateness

VoC 1A x VoC 1B = +.439

Sig. (2-tailed) = .068

Decision-Making

VoC 2C x VoC 2D = +.551

Sig. (2-tailed) = .014

Territoriality

VoC 3E x VoC 3F = +.578

Sig. (2-tailed) = .010

Functionality

VoC 4G x VoC 4H = +.694

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<sup>32</sup>

<sup>33</sup>

Sig. (2-tailed) = .001

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Asset Specificity

VoC 5I x VoC 5J = +.779

Sig. (two-tailed) = .001

Gender Discrimination

VoC 6K x VoC 6L = -.126

Sig. (2-tailed) = .608

The first indicator of stateness, public ownership of banks, is especially positively and highly correlated almost across the board, first with its corresponding spoke, government employment (.439) and then with VoC 2C (.729), VoC 2D (.533), VoC 3E(.767), VoC 3F (.742), VoC 4G (.681) and VoC 4H (.486). This is a truly amazing performance for a single variable. The second stateness spoke also does well in predicting the other dimensions of VoC, but not quite as well. The two measures of asset specificity, namely, those related to extent of vocational training and equality of inter-class income, are highly correlated with each other (.779), but weakly correlated with all of the other VoC spokes which is a hint that it is not a generic component of VoC or that we have not operationalized it properly.

Hidden within these encouragingly positive correlations are some interesting divergences within individual countries.<sup>34</sup> For example, Spain ranked highly liberal (5<sup>th</sup>) in its low state ownership of banks, but highly social (15<sup>th</sup>) in its restrictions on economic freedom. Austria and Germany have high proportions of state banks (19<sup>th</sup> and 17<sup>th</sup> respectively), but did relatively well in terms of the composite index of economic freedom (7<sup>th</sup> and 8<sup>th</sup>). In addition to these deviant cases, there were two “puzzling” ones on this stateness spoke: Sweden and Switzerland, but in opposite directions. The decision-making radial had fewer deviant cases. France was social in terms of more restrictive corporate governance provisions (15<sup>th</sup>), but very liberal (4<sup>th</sup>) in terms of low level of banking concentration. Australia was deviant in the opposite direction (6<sup>th</sup> and 16<sup>th</sup>). The shareholder

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<sup>34</sup> As a rough measure of rank-order discrepancies, we have used the following: rule of thumb: if a country had a disparity of more than 5 rank orders between spokes of the same radial, it was considered a “puzzling” case. When the disparity reached 10 or more, we labeled it as a “deviant” case.

radial is more difficult to interpret since one of its spokes (VoC 3E: shareholder rights) is a classification system with many tied-ranks. As mentioned, the functional or class conflict radial is so tight that there are neither deviant nor puzzling cases.

As a 'plausibility probe,' we also entered a sixth radial in an effort to capture differences in the gendered nature of VoC, the spokes being measured by rank-orderings of the proportion of women as officers in major corporations and general wage equality between men and women – both from the World Economic Forum's Report on The Global Gender Gap, 2007.<sup>35</sup> These two indicators are, surprisingly, not related to each other (-.126) – at least not in this sample, and their correlations with nine of the ten other VoC spokes are also uniformly weak. The exception is a relatively strong relation with VoC 4G, the degree of labor coordination. None rises above the .500 level. This suggests that variation in the distribution of rewards among men and women is not an intrinsic feature of different varieties of capitalism, but more likely to be due to other social or political factors.

### The ToD Spokes

The following are the operational indicators that have been chosen for the Types of Democracy:

1. **Stateness:** For this radial, the political science literature is massive, but ambiguous with regard to measurement. The most obvious measure for its first spoke is the capacity of the state (at the central level) to extract resources via taxation, fees, etc. from the citizenry on the assumption that this capacity is not only an indicator of the exercise of legitimate coercion over a given territory, but also of the state's potential role in policy intervention affecting the livelihood of its citizenry. The more social the democracy the higher the rank-ordering. The indicator for the second spoke is much less obvious. As a first approximation, we have used employment at all levels of government as a proportion of the total

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economically active population, but this may be subject to distortion in those cases where state activities are performed by private sub-contractors or by semi-public institutions. The 'liberal' end of the spoke should indicate a smaller proportional level of government receipts and by less public employees.

ToD 1A. Central Government Receipts as a percentage of GNP.<sup>36</sup>

ToD 1B. Government Employment at all levels as a proportion of total economically active population.<sup>37</sup>

2. **Decision-Making:** Again the political science literature on this radial in REDs offers a surfeit of possible indicators, based on two generic dimensions: the relation between citizens and their representatives and the relation between different governing institutions. The first should measure the extent to which ruling institutions "check and balance" each other and are constitutionally in their autonomy. The second indicator tries to capture the extent to which the party system is dominated (presumably as the result of free, fair and competitive elections) by a single party – regardless of the ideological orientation of that party or of the electoral system involved. Liberal REDs are expected to have more elaborate systems of horizontal accountability and more competitive party systems. Social REDs should have less constrained structures of authority and to have more dominant party systems. These operationalizations should be re-visited in future versions, especially to take into account the extent to which higher courts are empowered to review and potential reverse decisions made by popularly elected representatives.<sup>38</sup>

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<sup>38</sup> Cf. Rafael La Porta et al., "Judicial Checks and Balances," Journal of Political Economy, 112 (2), pp.445-470.

ToD 2C. A **Combination of the Number of Veto Points and Institutional Limits on Central State Executive and Legislative Authority.**<sup>39</sup>

ToD 2D. Average Extent of **Hegemony by the Leading Party in Executive Authority from 1950 to 1998.**<sup>40</sup>

3. **Territory:** In REDs, the representation of territorial constituencies is largely a function of the operation of the party system and multi-party electoral competition. In this regard two dimensions or spokes have usually been stressed: (1) the number of political parties that are effectively present, i.e. occupy a seat or seats in the lower house of national parliaments, and (2) the extent of disproportionality in the distribution of these seats. The usual assumption is that 'liberal' democracies tend to have fewer effective parties than 'social' ones and, hence, to form governments based on a single or small number of parties. One way this partisan concentration is accomplished is through electoral systems that "punish" voters who do not choose a winning candidate. 'Social' democracies typically have proportional systems that ensure that such votes are not thrown away and that territorially based minorities, whatever their social basis, are ensured a presence in the legislative process. Needless to say, many other sources of variation have been extensively discussed in the literature on ToD, for example, the ideological distance between competing parties, the extent of mal-apportionment across constituencies, the margin of victory for winning parties or coalitions, not to mention the eternal favorite, the nature of the electoral system itself. Again, the indicators we have chosen should be supplemented or revised in further research.

ToD 3.E. Number of Effective Political Parties.<sup>41</sup>

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<sup>39</sup> Source: Manfred Schmidt, Demokratie-theorien (Opladen : Reske + Budrich, 2000). p. 352

<sup>40</sup> Source: Schmidt, op. cit., p. 381

<sup>41</sup>

ToD 3.F. The Index of Disproportionality in Territorial Representation.<sup>42</sup>

4. **Function:** All varieties of capitalism generate systematic differences in reward and security for groups of persons that exercise different functions in their systems of production and distribution. Dealing with conflicts between these classes is a common element in all types of democracy that varies in accord with the extent of self-organization and consciousness of these groups, as well as the rules that emerge historically in response to such conflicts. At the liberal end of the continuum, the formation of trade unions was initially resisted by authorities as an “obstacle” to economic freedom and subsequently left to the voluntary choice of workers, while at the social end these same public authorities (often controlled by governments with strong Social Democratic parties) facilitated membership and even granted privileged access to their organizations. Employers responded (usually reluctantly) by organizing themselves and entering into more or less stable bargaining arrangements at varying levels of aggregation ranging from the plant to the sector to the entire economy. As a result of these differing patterns of negotiation (captured in part by the conceptual distinction between pluralist and corporatist systems of interest intermediation), REDs adopted quite different policies with regard to tolerating or facilitating trade union membership. In liberal REDs, they tended to result in lower membership densities; in social REDs, they approached almost universal levels of membership for workers and professionals.

ToD 4G: Mean Score on Corporatism Indicator.<sup>43</sup>

ToD 4H: Trade Union Membership as a percentage of total economically active population.<sup>44</sup>

5. **Asset Specificity:** Discussions about ToD have completely ignored this variable. Indeed, it is not easy to imagine why it

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should be relevant or how it should be measured. In any democracy, the most specific asset is citizenship – equal treatment of individuals with regard to a specified set of rights and obligations. Needless to say, not all citizens take equal advantage of these rights or obligations, but they are entitled in principle to do so. The more the holders of these citizenship properties are protected against others (foreigners, resident aliens) making competing claims, the higher should be the asset specificity of acting within a given ToD. At the extreme, in totalitarian autocracies, citizens benefit (or suffer) from extreme asset specificity since they can not leave nor can foreigners enter without the explicit consent of public authorities. Contemporary REDs are much more tolerant, but they do vary considerably in the extent to which they allow foreigners to reside in their territory and to which they permit these ‘denizens’ to acquire citizenship.

ToD 5I: Non-nationals legally resident (denizens) as a % of total population.<sup>45</sup>

ToD 5J: Difficulty for denizens to acquire national citizenship<sup>46</sup>

6. **Gender Discrimination:** Democratic theory, once it had “digested” and taken for granted the enfranchisement of women, shifted its attention to their success in gaining access to specific elite positions, namely, (1) in parliaments; and (2) in cabinets. At the liberal end of the continuum, this process of transformation was left to the “normal” channels of competition and representation by political parties and, hence, gender equality has taken longer and been less comprehensive. At the social end, REDs have usually adopted specific state or partisan policies designed to accelerate this process, e.g. quotas, and to extend it to a wider set of political positions.

ToD 7K: **Women in cabinet positions**<sup>47</sup>

ToD 7L: **Women in parliament**<sup>48</sup>

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This is an indicator obtained by multiplying

## Table Two

### Rank-Order Correlation between ToD Spokes for Each Radial: Spearman's Rho

#### Stateness

ToD 1A x ToD 1B = +.621  
Sig.(2-tailed) .005

#### Decision-Making

ToD 2C x ToD 2D = +.519  
Sig. (2-tailed) .023

#### Territoriality

ToD 3E x ToD 3F = +.605  
Sig. (2-tailed) .006

#### Functionality

ToD 4G x ToD 4H = +.839  
Sig. (2-tailed) .000

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ToD 5I x ToD 5J = +.493  
Sig. (2-tailed) .068

ToD 6K x ToD 6L = +.812  
Sig. (2-tailed) = .000

The correlation between the two indicators of stateness: total central government receipts and total government employment is strong (.621), as expected.<sup>49</sup> The puzzling cases (those with more than five and less than ten differences in rank) are the United States and Portugal with low proportional receipts, but relatively more government employees. The United Kingdom and Netherlands got it the other way round. No case is deviant according to our standard.

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The correlation between formal institutional concentration and domination by a single competitive party on the decision-making radial is positive and strong (.519). For example, Japan is the only deviant case with a rank of 19 in party domination and only 11 in dispersion of formal institutions. The USA, Australia and Italy are puzzling in that their less concentrated systems of executive decision-making are combined with more competitive electoral systems.

The territorial radial as measured by the number of effective parties in the electorate and the extent of disproportionality in the distribution of votes won and seats allocated in the lower house of the legislature is quite strongly correlated (.605). Theoretically speaking, this conforms to expectations since underlying both are similarities in electoral systems, especially the difference between majoritarian, first-past-the-post, single-member (liberal) ones and various types of proportional, multi-member (social) ones – not to mention the German mixed system. Switzerland is a deviant case with relatively few parties in the electorate (3<sup>rd</sup>) and a highly proportionate allocation of legislative seats. Belgium is also deviant in the same fashion. Portugal is even more deviant in the opposite direction, 18<sup>th</sup> with its large number of parties and yet 4<sup>th</sup> in terms of proportionality! Austria is “puzzling” in the same regard.

The two spokes of the functional radial that measure the pattern of interaction between organized capital and labor and that of membership in trade unions are very strongly correlated (.839). Only Ireland is deviant according to our criteria. It has a much more liberal (or pluralist) industrial relations system (3<sup>rd</sup>) and relatively high levels of trade union density (15<sup>th</sup>).<sup>50</sup> Belgium, Denmark, Italy, Australia, Canada and the United Kingdom are “puzzling” in the same way. Inversely, Germany and Japan have lower densities of membership than one might expect from their higher scores on corporatism.

The ToD spokes intended to represent asset specificity through conditions for nationalization of citizenship (ToD 5I) and proportion of

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<sup>50</sup> Actually, Ireland shortly after this variable was measured (ca. 1990) engaged in a protracted process of policy concertation in which business associations and trade unions were major participants, thereby reducing its deviant status.

foreign residents (ToD 5K) are positively correlated (.493), but weakly related to most of the other ToD variables, except (strangely) for the one measuring the number of political parties (.537) and (less strangely) the ones measuring the corporatist nature of industrial relations (.463) and proportionate membership in trade unions (.551).

The spokes measuring women in parliament and in cabinet positions are very strongly related (.812), as one might suspect. Moreover, both of them have a number of strong associations with other ToD variables. In other words, the more women occupy leading political roles, the more social is the type of democracy in general. And the strongest single predictor of greater gender equality in politics is the mean score for corporatism (+.607). Our conclusion is that the political, as opposed to the economic, treatment of women is an integral component of different types of democracy – but this is not the case for varieties of capitalism.

The internal validity between the two spokes of ToD radials is generally less impressive than that between the VoC ones. This could either imply that the operational indicators of the former are less valid or that, of the two underlying conceptual models, the types of democracy may be based on a less coherent set of assumptions about the interrelationship between institutions and behaviors than the varieties of capitalism. It might also be that the weaker empirical clustering of ToD variables is indicative of a very important empirical difference, namely, that the choice of political regime characteristics is less functionally determined and more path dependent than that of VoC. In the latter case, competition between private firms and across national economies is more compelling and the units involved are better equipped to adjust to changes in consumer preference and technology; whereas, in the former, the dynamics of interaction between political parties, employer associations, trade unions, state agencies and their respective publics are constrained by relatively fixed barriers such as constitutions and legal norms and by deeply entrenched identities and interests that ensure an increasing marginal return to the persistence of institutions, i.e. to path dependency. Also capitalist firms may be more open to imitating the success of their competitors at home or abroad. Political actors may be reluctant to do so for fear of being accused of lacking patriotism by their more nationalist competitors.

Another sign of this apparently generic difference between varieties and types can be gleaned from the differing importance of stateness. In the former, as we observed, VoC 1A (government ownership of banks) correlated positively and strongly with virtually all of the other VoC spokes; whereas, in the latter, ToD 1A (central government receipts as a % of GNP) was also positively associated with the other ToD spokes, but more weakly so. Nevertheless, in both cases, stateness is the most powerful predictor of variation in the other dimensions of VoC and ToD. It deserves the theoretical status of “Master Variable” in both of the macro-configurations of national political economy.

With regard to both VoC and ToD, the measures of correlation are usually higher for the raw scores (Pearson Product Moment) than for the rank orderings (Spearman’s Rho). This could be a simple artefact of the way in which the two statistical instruments are calculated, or it could have interpretive significance. We mentioned above that the transformation from the former to the latter diminishes the importance of outlying cases – whether high or low – and stretches out the scores of those cases that cluster toward the mean. If the distribution of values in each of the spokes is roughly normal, this suggests that the prevailing “dichotomous” treatment of VoC and ToD in the literature may have some merit. Two ‘extreme and tight’ clusters of cases at the high (liberal/majoritarian) and low (coordinated/consensus) ends of the continuum and a larger number of more-or-less indistinguishable and mixed cases in the middle would explain why the raw scores are more strongly associated than the rank orderings.<sup>51</sup>

### **Two X Twenty Circles?**

If the recent literatures on VoC and ToD were completely correct (and if our indicators are valid), the plotting of the radials for each of the twenty countries should produce 40 (almost) perfect circles. If economic and political institutions and practices were really as functionally “complementary” as these theories suggest, the rank-

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<sup>51</sup> We have placed the raw data, i.e. the rank orderings for all 19 countries, on VoC and ToD in Appendix One.

orderings of their measures should result in the most liberal cases, i.e. with the scores closest to 1 on both VoC and ToD variables, clustering in a tight circle at the center of the diagram and those with social capitalism and democracy should form a large outer circle. Although both literatures have little to say about the cases in between these extremes, we might also expect a similar functionalist logic to apply such that these hybrids could also have their own set of complementary institutions and, therefore, be circular and consistent with their intermediate scores.<sup>52</sup>

Table Three

Aggregate Rank Order and Standard Deviations  
of the Four VoC Radials and their Eight Spokes

	Rank (Score)	Standard Deviation
Liberal Capitalism:		
United Kingdom	1. (1.5)	0.5
United States	2. (1.6)	1.2
Canada	3. (4.0)	2.8
Ireland	4. (5.9)	2.4
Switzerland	5. (6.4)	3.8
Australia	6. (7.0)	3.9
		Average SD = 2.1
<hr/>		
Hybrid Capitalism:		
Japan	7. (7.5)	7.0
Netherlands	8. (8.0)	2.6
Denmark	9. (9.9)	2.0
Sweden	10. (10.4)	4.1
Spain	11. (10.9)	3.6
France	12. (11.3)	3.3
Finland	13. (12.0)	2.9
Belgium	14. (12.5)	4.3

<sup>52</sup> Actually, in the case of VoC, these mixed cases are more often regarded as less well performing precisely because their degree of institutional complementarity is lower. Hence, at least for the VoC webs, we should anticipate that they will form more erratic and inconsistent patterns. The ToD literature has virtually nothing to say about those democratic regimes that cannot be classified as either “majoritarian” or “consensual.”

Average SD = 3.8

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Social Capitalism:

Germany	15. (13.9)	4.8
Portugal	16. (13.9)	4.5
Norway	17. (14.1)	2.7
Austria	18. (16.4)	4.5
Italy	19 (16.9)	1.5

Average SD = 2.8

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The nineteen VoC cases group rather well into three categories, as expected: (1) liberal, (2) hybrid and (3) social. The distribution of data seems to support one of the key assumptions of the VoC literature – namely, that there are two more institutionally consistent varieties at the far ends of a continuum. The hybrids in the middle rank less consistently. This is illustrated by the tendency for lower standard deviations in a country’s rank-orderings, the closer it approximates one or the other of the extreme ideal types. There are a few exceptions, however. Denmark and the Netherlands are unusually consistent cases of hybridity; Australia has rather mixed rankings for an otherwise liberal economy. Japan is by far the most erratic performer with a SD of 7.0; the United Kingdom is the least erratic (at the liberal end of the continuum) with a SD of 0.5. Not surprisingly, the United States also emerges as consistently liberal.

It should be noted that several cases often promoted in the literature as archetypical cases of “coordinated market economies” emerge from this analysis as “hybrids:” the Netherlands, Sweden, Denmark, and Finland. Germany which is considered “the” case of a CME barely makes it into the “social” category, along with Portugal and Italy that have usually been un-classifiable and assigned the vague status of “Mediterranean.” That literature also assumes that the “pure” types (LMEs and CMEs in their jargon; “liberal” and “social” in ours) perform better. This topic has not been an explicit concern in this article, but a quick glance would reveal a lot of variation in growth and unemployment rates within each of the clusters – certainly now, but also in the recent past. If, however, they are ranked by their institutional consistency (as indicated by their respective standard deviations), the order that emerges would seem to confirm better to expectations about performance. Even so, two of the most

celebrated (and presumably best performing CMEs) – Austria and Germany – would not seem to have much of the hypothesized and praised institutional complementary.” Rather, they (and Japan even more so) look decidedly heterodoxical.

Table Four

Rank Ordering of VoC Cases by their Standard Deviations

1. United Kingdom	0.5
2. United States	1.2
3. Italy	1.5
4. Denmark	2.0
5. Ireland	2.4
6. Netherlands	2.6
7. Norway	2.7
8. Canada	2.8
9. Finland	2.9
10. France	3.3
11. Spain	3.6
12. Switzerland	3.8
13. Australia	3.9
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14. Sweden	4.1
15. Belgium	4.3
16. Portugal	4.5
17. Austria	4.5
18. Germany	4.8
19. Japan	7.0

The types of democracy are a bit more difficult to classify than the varieties of capitalism. In Table Five, they too cluster numerically and can be labelled safely as liberal, hybrid and social, but this produces some strange pairings. Spain emerges in Table Five as more liberal than Australia, Switzerland or the United Kingdom. The clue to these counter-intuitive aggregate scores may be found in the pattern of standard deviations (Table Six). They are higher on the average than for VoCs and one of the “extreme” ToDs, the liberal one, has a SD score almost as high as the hybrid ones. The social democratic cluster is more easily recognizable and relatively homogeneous



(Austria, Finland, Denmark, Norway and Sweden – in that order), although one might have expected the Netherlands to have been placed in it.<sup>53</sup> We conclude that ToDs generally have less “complementary” rules and practices than VoCs. Whether this has important implications for the quality of their respective democracies is something we cannot assess in this essay.

Table Five

Aggregate Rank Order and Standard Deviations  
of the Four ToD Radials and their Eight Spokes

	Rank (Score)	Standard Deviation
Liberal Democracies:		
United States	1. (3.8)	3.2
Spain	2. (2.8)	2.8
Australia	3. (3.3)	3.3
Canada	4. (7.3)	5.7
United Kingdom	5. (7.5)	6.5
		Average SD = 4.3
Hybrid Democracies:		
Portugal	6. (7.8)	4.5
Switzerland	7. (7.9)	6.9
France	8. (8.3)	5.0
Germany	9. (9.5)	5.5
Japan	10. (9.5)	5.3
Italy	11. (10.3)	4.2
Belgium	12. (10.4)	5.0
Ireland	13. (10.4)	2.2
Netherlands	14. (10.5)	6.0
		Average SD = 4.9

<sup>53</sup> The reader is reminded that this cluster should not be identified with the electoral strength or government role of Social Democratic parties. These “partisan” variables have not been included in our analysis of ToDs, just those measuring the rules or behaviors of public institutions.

Social Democracies:

Austria	15. (12.4)	5.7
Finland	16. (13.4)	4.5
Denmark	17. (14.1)	4.1
Norway	18. (15.5)	3.0
Sweden	19. (17.0)	2.4
		Average SD = 3.9

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Table Six

Aggregate Rank Order of Standard Deviations  
from the Eight ToD Spokes

Standard Deviation

1. Sweden	2.4
2. Ireland	2.2
3. Spain	2.8
4. Norway	3.0
5. USA	3.2
6. Australia	3.3
7. Denmark	4.1
8. Italy	4.2
9. Finland	4.5
10. Portugal	4.5
11. France	5.0
12. Belgium	5.0
13. Japan	5.3
14. Germany	5.5
15. Canada	5.7
16. Austria	5.7
17. NL	6.0
18. UK	6.5
19. Switzerland	6.9

## The “Fit” between VoC and ToD

Finally, we are able to address the question we began with: how do the two patterns ‘fit’ with each other. Our initial orienting hypothesis was that they should be positively and significantly correlated – although since we only have been exploiting synchronic data (ca. 1990 or longer term averages around this date), we can not assert anything about their diachronic relationship. The literature, however, confidently assumes that historically it has been the VoC that has determined the ToD.<sup>54</sup>

Table Seven

The Rank-Order Relation between the Compound Rank-Orders for VoC and ToD

	VoC Ranking	ToD Ranking	(Disparity)
United Kingdom	1.	5.	( - 4)
United States	2.	1.	(+ 1)
Canada	3	4.	( - 1)
Ireland	4.	13.	( - 9)
Switzerland	5.	7.	( - 2)
Australia	6.	3.	( + 3)
Japan	7.	10.	( + 3)
Netherlands	8.	14.	( - 6)
Denmark	9.	17.	( - 8)
Sweden	10.	19.	( - 9)
Spain	11.	2.	( + 9)
France	12.	8.	( + 4)
Finland	13.	16.	( - 3)
Belgium	14.	12.	( + 2)
Germany	15.	9.	( + 6)

<sup>54</sup> For a recent analysis of the proposition that “differences in the structure of economies” produced significant change in electoral systems in early Western democracies, see Thomas Cussack, Torben Iverson and David Sockice, “Economic Interests and the Origins of Electoral Systems,” *American Political Science Review*, 101 (3), August 2007, pp. 373-392. For a contracting recent explanation that such choices emerged from the preferences of competing parties, see Alberto Penadès, “The Institutional Preferences of Early Socialist Parties: Choosing Rules for Government,” *Estudios: Working Papers*, Instituto Juan March, 2006/226 (May 2006). In both case, the analysis focuses on only one aspect of ToD – not even one that we regard as “radial.”

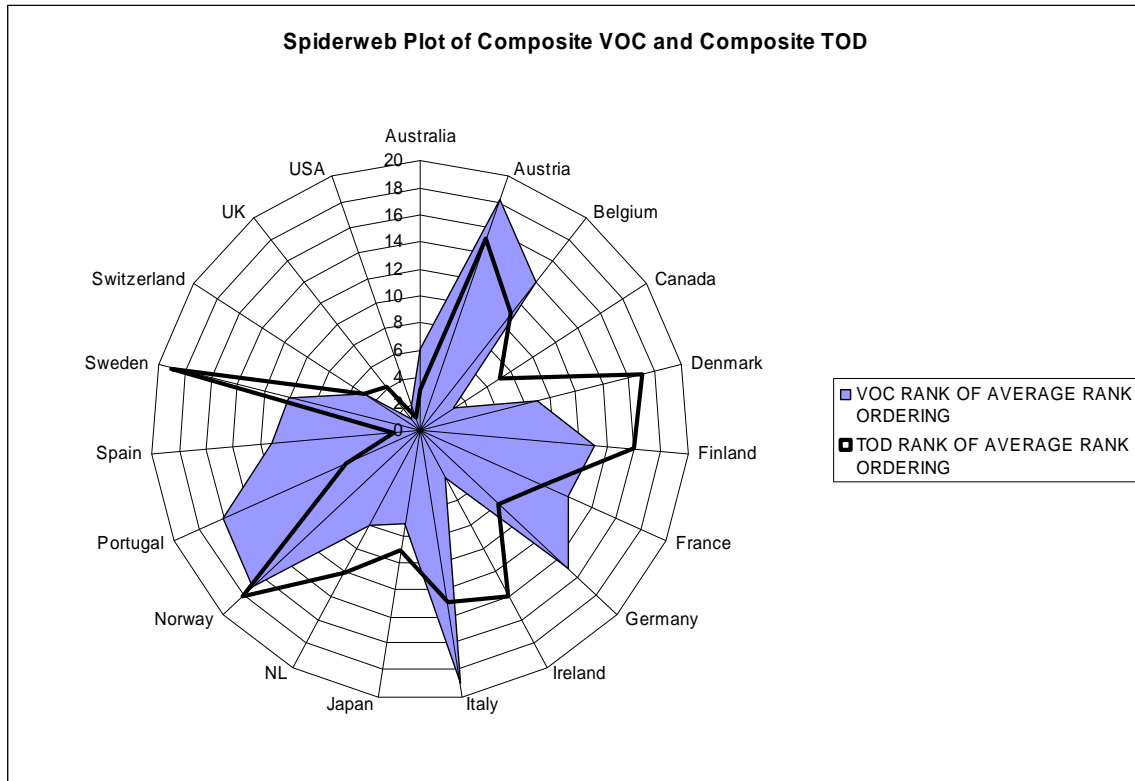
Portugal	16.	6.	( + 10)
Norway	17.	18.	( - 1)
Austria	18.	15.	( + 3)
Italy	19.	11.	( + 6)

Spearman's Rho = .454  
 Sig. (two-tailed) = .051

Taking into consideration nineteen of the richest OECD countries, the relationship is a very significant + .454. On the basis of our conceptualization of the key dimensions (the “Radials”) and our admittedly more tentative operationalization of their variables (the “Spokes”), we confidently conclude that **the varieties of capitalism and the types of democracy are predictably and positively related to each other**. The more liberal, hybrid or social is the one; the more liberal, hybrid or social is the other. In other words, this relationship holds not just at the extremes, but throughout the full range of variation.

If we begin with the assumption that capitalism is usually prior to democracy and provides much of the impetus for and the constraints within which democracy operates, this leads us to the conclusion that ToD should be embedded within VoC, rather than the contrary. We have symbolized this by the pluses and minuses in the rank disparities in Table Six. A minus indicates that the country has a less liberal type of democracy than one would expect given its more liberal variety of capitalism, a plus that its VoC is more social than its ToD. Several countries seem to have the VoC and ToD they deserve: the United States (+1), Canada (-1), Norway (-1), Switzerland (-2), Belgium (+2), Australia (+3), Japan (+3), Austria (+3) and Finland (-3) are almost exactly where one would expect them to be. Others come close to a putative “equilibrium” with a disparity of 6 ranks or less: France (+4), United Kingdom (-4), Netherlands (-6), Italy (+6) and Germany (+6). The puzzling cases are Denmark (-8), Sweden (-9), Ireland (-9) and Spain (+9), but the only really deviant one is Portugal (+10). Its democracy is much more liberal (6<sup>th</sup>) than its economy (16<sup>th</sup>). So, while the general VoC-ToD relationship holds up remarkably well, there are sufficient exceptions to keep comparative analysts busy for some time.

Figure Two



In Figure Two, the composite rank-orderings for VoC and ToD are superimposed upon each other which permit a visualization of puzzles and deviations noted above. Portugal’s large “blue” social capitalism extends far beyond its liberal democracy; Sweden, Denmark and Ireland have the opposite misfit. Their social democracies reach beyond their expected levels of social capitalism. Spain looks like a mild version of the Portuguese misfit.

Our second basic assumption has been that both the varieties of capitalism and the types of democracy share the same defining dimensions that we have called “radials,” i.e. (1) stateness, (2) decision-making, (3) territory and (4) function. This is a much more demanding one to prove empirically. The correlation of aggregate rank orderings of VoC and ToD that we have just discovered could obtain – even if the presumably corresponding spokes did not correlate with each other. All it proves is that there are general

configurations that are related to each other, not that each of the four radials is related to its allegedly corresponding one.<sup>55</sup>

Table Seven

Stateness Radial: Correlation between VoC and ToD Spokes:  
Spearman's Rho

	ToD 1A	ToD1B
VoC 1A Sig. (2-tailed)	.342 .152	.407 .084
VoC 1B Sig. (2-tailed)	.443 .066	.620 .006**

At the top or institutional end, the relationship between central government receipts and state role in the banking system is weak (.342), but that between a higher degree of freedom from economic regulation and the proportion of government employees is high (.620). Moreover, the other two cells show positive relationships. Which suggests that there is some merit in the assumption of a common stateness dimension to both VoC and ToD.

Table Eight

Decision-Making Radial: Correlation between VoC and ToD Spokes:  
Spearman's Rho

	ToD 2C	ToD 2D
VoC 2C Sig. (2-tailed)	-.262 .279	-.262 .279

<sup>55</sup> We also experimented with the role of two other radials: asset specificity and gender discrimination. Neither of the two was significantly associated with VoCs, but women's role in politics corresponded closely with ToDs. The more social the democracy, the more women held important positions in its executive or legislative institutions. Liberal democracies clearly suffered from greater gender discrimination.

VoC 2D Sig. (2-tailed)	-.024 .923	-.061 .805 <sup>*805</sup>
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A similar notion that this communality also applies between decision-making in firms and in political insitutiions is firmly rejected by the matrix in Table Eight.

Table Nine

Territorial Radial: Correlation between VoC and ToD Spokes:  
Spearman's Rho

	ToD 3E	ToD 3F
VoC 3E Sig. (2-tailed)	.181 .459	.436 .062
VoC 3F Sig. (2-tailed)	.714 .001	.573 .010

The pattern revealed in Table Nine shows a strong relationship between our territorial radials which is surprising since we admitted having difficulty coming up with equivalent measures for this VoC spoke. Three of the cells are strongly correlated, with an astonishing high correlation between VoC 2D (ownership concentration) and ToD 3E (the number of effective parties in the electorate).

Table Ten

Functional Radial: Correlation between VoC and ToD Spokes:  
Spearman's Rho

	ToD 4G	ToD 4H
ToD 4G	.530	.438
ToD 4H	.020	.061
VoC 4G Sig. (2-tailed)		

VoC 4H Sig. (2-tailed)	.590 .008	.292 .224
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When it comes to dealing with the relations between capital and labor at the plant or sectoral level and through the political role of their class associations, we discover a set of very high correlations across the two realms, except for that between VoC 4H (the level of employment protection) and ToD 4H (the density of trade union membership). It would seem that lots of members is not a necessary condition for high state regulation of the labor market, especially when the latter is the product of policies inherited from a previous autocratic regime, e.g. Spain and Portugal. Nevertheless this radial is almost as strong a candidate for communality as stateness.

Table Eleven

Asset Specificity Radial: Correlation between VoC and ToD Spokes:  
Spearman's Rho

	ToD 5I	ToD 5J
VoC 5I Sig. (2-tailed)	.540 .038	.332 .226
VoC 5J Sig. (2-tailed)	.571 .026	.325 .237

Asset specificity has not performed well in terms of its connections with other dimensions of either VoC or ToD – leading us to suggest its removal from the analysis – but it is interesting to note how much the nature of a given country's vocational training system tends to be correlated with the proportion of foreigners resident in it (the more foreigners, the less important is vocational training). Could it just be that this indicator of asset specificity is less a characteristic of VoC than of ToD?

Table Twelve



Gender Discrimination Radial: Correlation between  
VoC & ToD Spokes:  
Spearman's Rho

	ToD 6K	ToD 6L
VoC 6K Sig. (2-tailed)	-.056 .821	.125 .611
VoC 6L Sig. (2-tailed)	.082 .739	.090 .715

The correlation between our gender discrimination variables in different VoCs and ToDs is nil – confirming our suspicion that this variable is much more affected by political policies and party competition than by economic calculations and firm decisions.

To summarize with regard to the six radials thought to be in common and, hence, to characterize both the varieties and the types, Stateness, Territory and Function conform to this assumption. The radials for Decision-Making and Gender Discrimination do not. And Asset Specificity Radial has a partial set of associations for which we have no explanation.

### The “Plot” between VoC and ToD

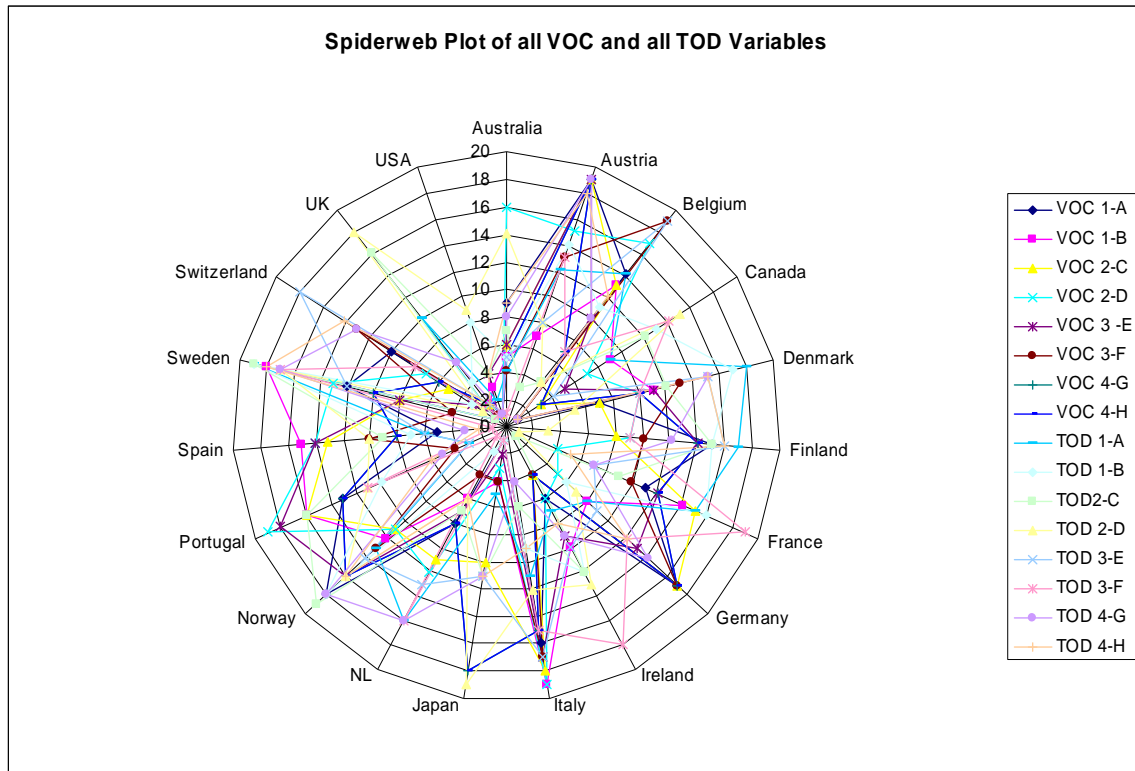
The transformation of the raw data on all twelve variables into rank orderings from 1 (liberal) to 19 (social) has provided us with a means not only to test for statistical patterns of association within and across VoC and ToD, but also to identify specific instances of ‘puzzling’ or ‘deviant’ cases. Its greatest value has yet to be realized, namely, the ability literally to “see” how these variables fit with regard to each other and, thereby, to comprehend the general configuration of institutions and behaviors in each of the 19 economies/polities.

The device for realizing this is the “spider web” display, first for all of the cases of VoC and of ToD and then for each of the cases. At this point in the analysis we shall be applying the IOI coefficient, i.e. the “Inter-Ocular Impact” test for how much the visual pattern strikes us

between the eyes. No doubt there exist more sophisticated algorithms for doing this, but we have not found them.

Figure Three

A Spider Web Plot of the Eight VoC and Four ToD Spokes  
For All Nineteen Countries



We have included Figure Three to provide the reader with an overview of distribution of all of the eight VoC and eight ToD spokes. It is obviously un-intelligible, since the nicely “complementary” institutional convergence fail to appear. Nevertheless, the patterns are not chaotic and certain countries exhibit a notable clustering of high and low, but also medium scores in both regimes. Presumably, if we were to blow up the plot, it would be easier to identify more specific patterns of convergence.

Figure Four

A Spider Web Plot of the Eight VoC Spokes  
For all Nineteen Countries

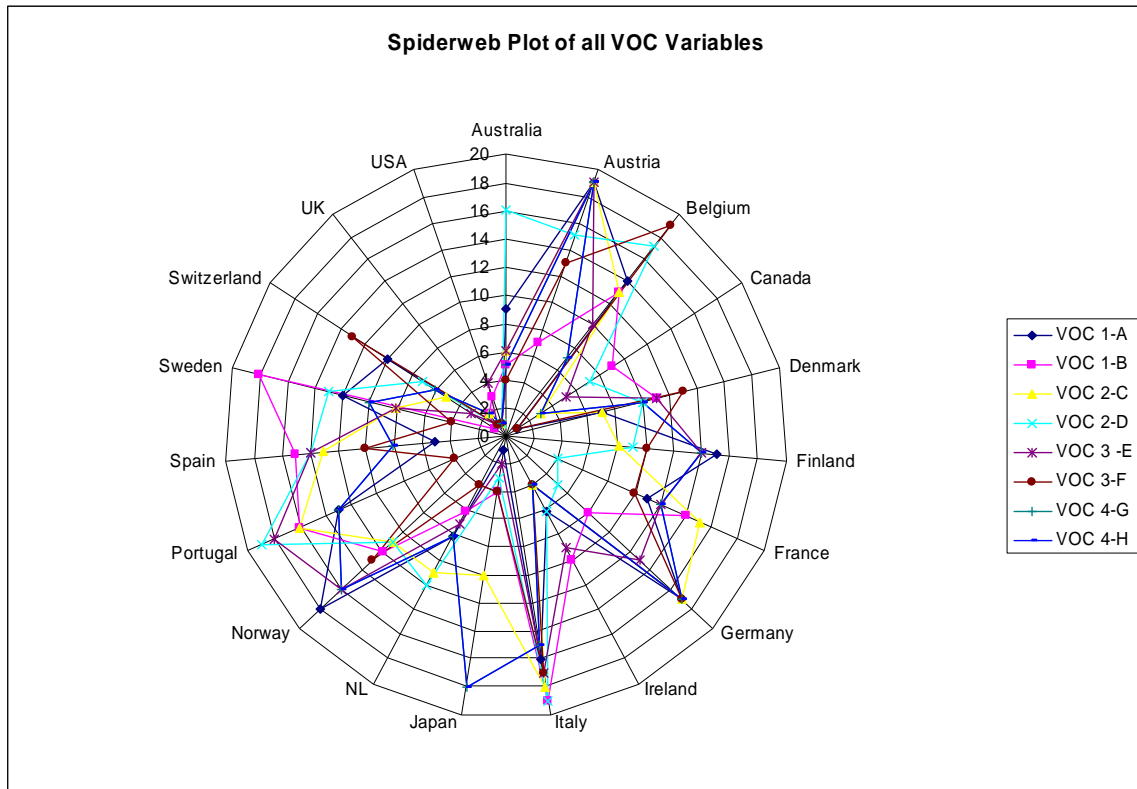
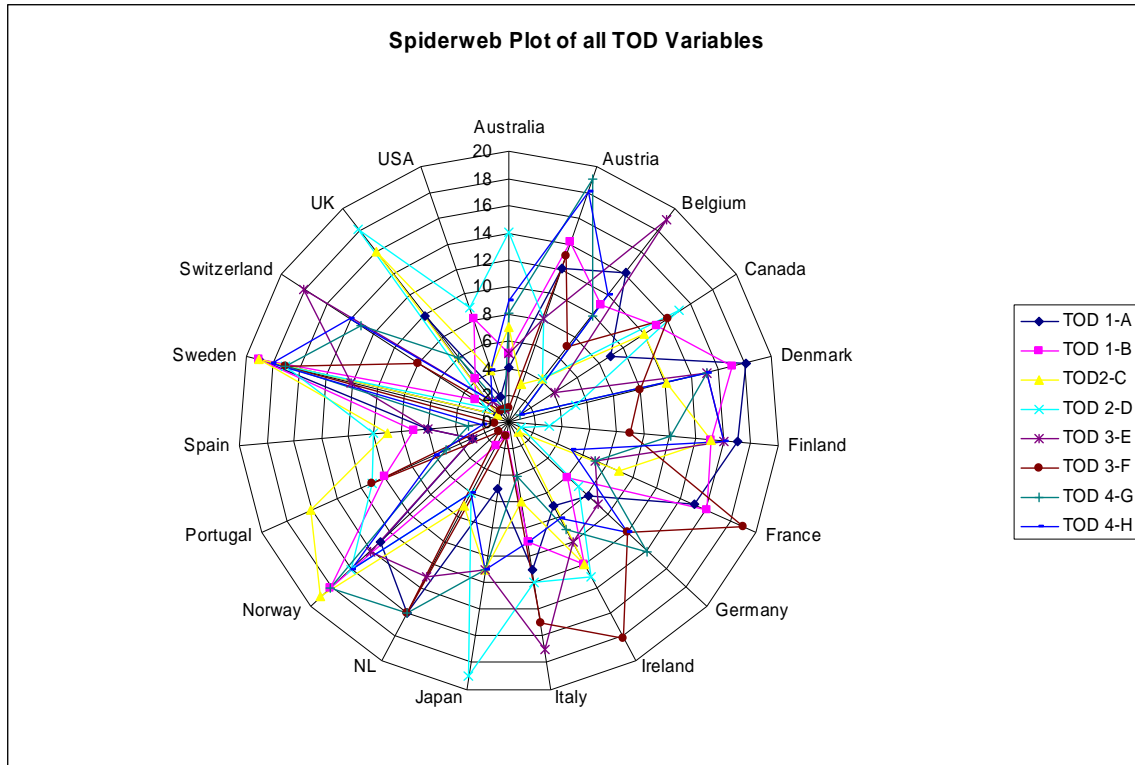


Figure Four

Spider-webbing just the VoC spokes shows a much more obvious pattern of convergence with Italy receiving a surprisingly tight cluster of 'social' scores, along with Austria and Norway. As already noted, Australia, the United States and the United Kingdom have very similar and consistent patterns of 'liberal' capitalist institutions, with Canada and Ireland deviating slightly from them. Germany, Denmark and Finland emerge as hybrids with a consistent set of middle rankings.

A Spider Web Plot of Eight ToD Spokes  
For All Nineteen Countries



The ToD spider web is less convergent, as we have noted, with all of the cases exhibiting greater divergence.

In Appendix Two, we have placed the spider web plots for each of the nineteen OECD countries for which we have complete data. In an eventual supplement to this essay, we intend to apply the IOI test to the spider webs for the United States and Sweden (two of the most consistently liberal or social cases of both VoC and ToD) and for Germany and Japan for reasons having to do with the project that is at the origin of this research.

### Eventually, a Conclusion

There is no way that we can conclude this study by exploring the causal relation between VoCs and ToDs. We have shown that a general correlation exists between the two, as well as more specific correlations between the radials and spokes that we have used to characterize each of them. But our data preclude even speculating about the causality embedded in the historical processes that have brought them together. We have good reason to believe that the two have had a difficult and, at times, tumultuous relationship. And that,

over time, the causal one may have become the effected one – and *vice versa*. But eventually they managed to converge into what seem to be a self-reinforcing set of rules and practices. For the foreseeable future, varieties of capitalism and types of democracy seem to be condemned to survive and to co-exist – whether their consumers and citizens enjoy the experience.

The second way to conclude this synchronic and descriptive study of the relation between VoC and ToD would have been to test for the impact of our findings upon economic and/or political performance. The major hypothesis “out there” is that the purer varieties of national capitalism closer to the liberal or social poles of the continuum should grow faster, produce less unemployment and have more stable currencies. Presumably, a similar hypothesis could be entertained for the more liberal or social types of national democracy. They should have more stable governments, better satisfied citizens, and a higher quality of democracy.

Here, the problem is not the existence or cost of obtaining relevant data. There is an excess of them, especially for OECD countries. What currently makes such an assessment impossible is the existence of extraordinarily great, recent fluctuations in these performance data – without any corresponding changes in the basics of VoC or ToD. Countries that were triumphantly declared “miraculous” just a few years ago have become “miserable” ones today. And those that were decried for the “rigidity” of their economic policies or the “unresponsiveness” of their political systems are now doing relatively better than their competitors. In other words, whatever results one might obtain by correlating performance data with VoCs or ToDs would vary radically according to the time period used to aggregate them.

The safest assumption would seem to be that no variety or type, however pure, can guarantee optimal performance all of the time. This depends on ... (the business or product cycles, trends in consumer preferences, random generation of innovations, shifts in citizen interests, changes in the salience of social cleavages, fads and fashions in public policy, constraints and opportunities produced by the international system, *e così via*). And Aristotle may have had the best answer some time ago. It might just be that those much

maligned “mixed” regimes have the “requisite diversity” that enables them to perform well (if not optimally) in different circumstances.

Appendix One:

Data Matrix of Rank-ordering for VoC and ToD

Country	VOC RANK OF AVERAGE RANK ORDERING			TOD RANK OF AVERAGE RANK ORDERING			Country	VOC 1-A
	AVERAGE RANK ORDERING	AVERAGE RANK ORDE	SD	AVERAGE RANK ORDERING	AVERAGE RANK ORDE	SD		
Australia	6	7.0	3.9	3	6.6	3.9	Australia	
Austria	18	16.3	4.4	15	11.9	5.4	Austria	1
Belgium	14	12.5	4.3	11	10.1	5.1	Belgium	1

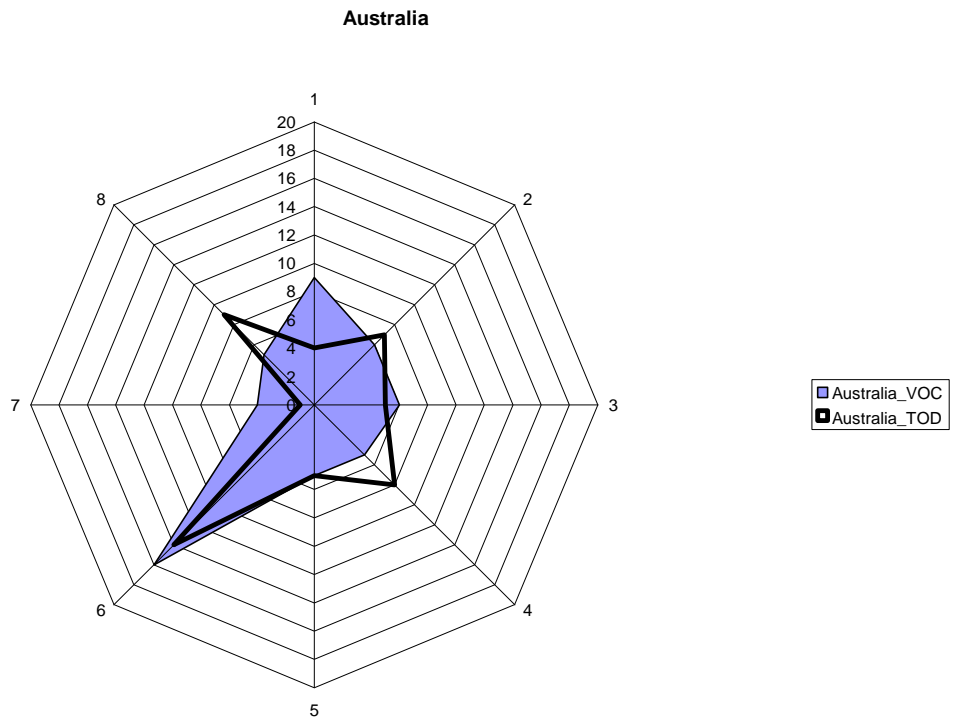
Canada	3	4.0	2.8	7	8.6	5.8	Canada	
Denmark	9	9.9	2.0	17	13.4	4.2	Denmark	
Finland	13	12.0	2.9	16	12.9	4.8	Finland	1
France	12	11.3	3.3	10	9.9	6.2	France	1
Germany	15	13.9	4.8	8	8.6	4.1	Germany	1
Ireland	4	5.9	2.4	14	11.1	3.5	Ireland	0
Italy	19	17.0	1.6	13	10.4	4.3	Italy	1
Japan	7	7.5	7.0	9	8.8	6.1	Japan	
NL	8	8.0	2.6	12	10.3	5.6	NL	0
Norway	17	14.1	2.7	18	14.4	5.8	Norway	1
Portugal	16	14.0	4.7	6	8.1	4.6	Portugal	1
Spain	11	10.9	3.6	2	5.5	3.3	Spain	0
Sweden	10	10.4	4.1	19	17.3	2.3	Sweden	1
Switzerland	5	6.4	3.8	5	7.5	6.7	Switzerland	1
UK	1	1.5	0.5	4	7.4	6.6	UK	
USA	2	1.6	1.1	1	3.8	3.2	USA	



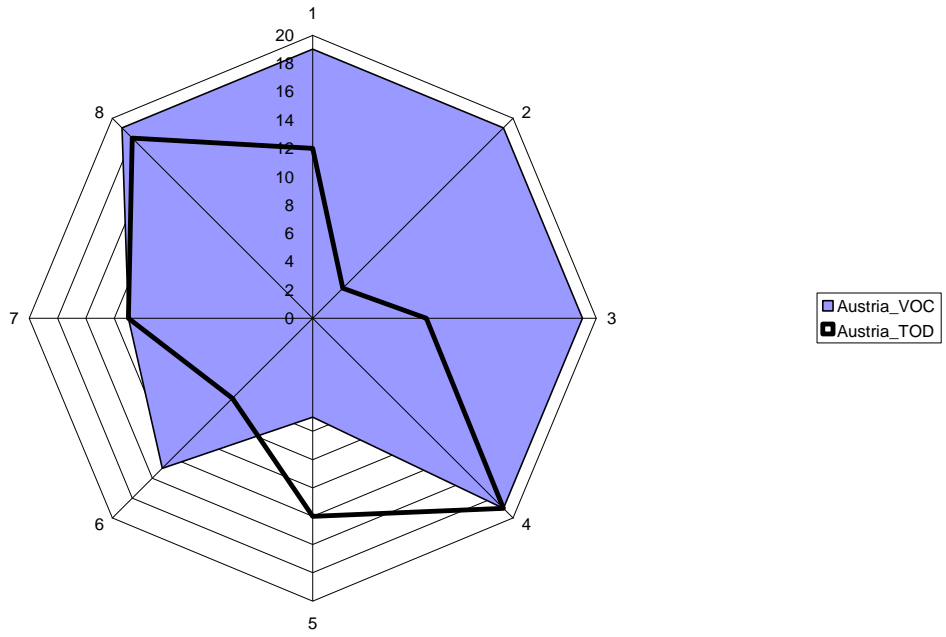


## Appendix Two

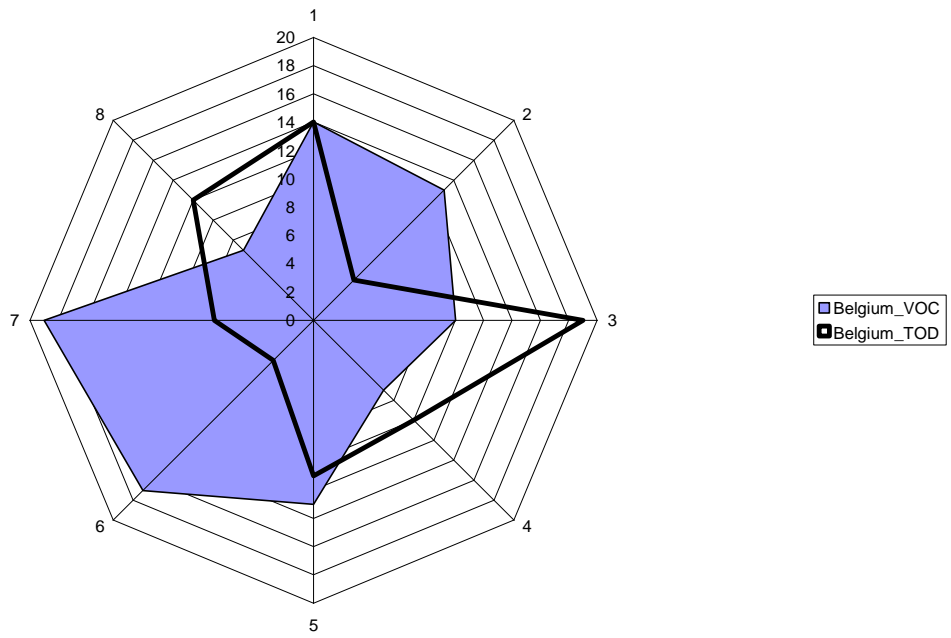
# Spider Web Plots of VoC and ToD for All Cases



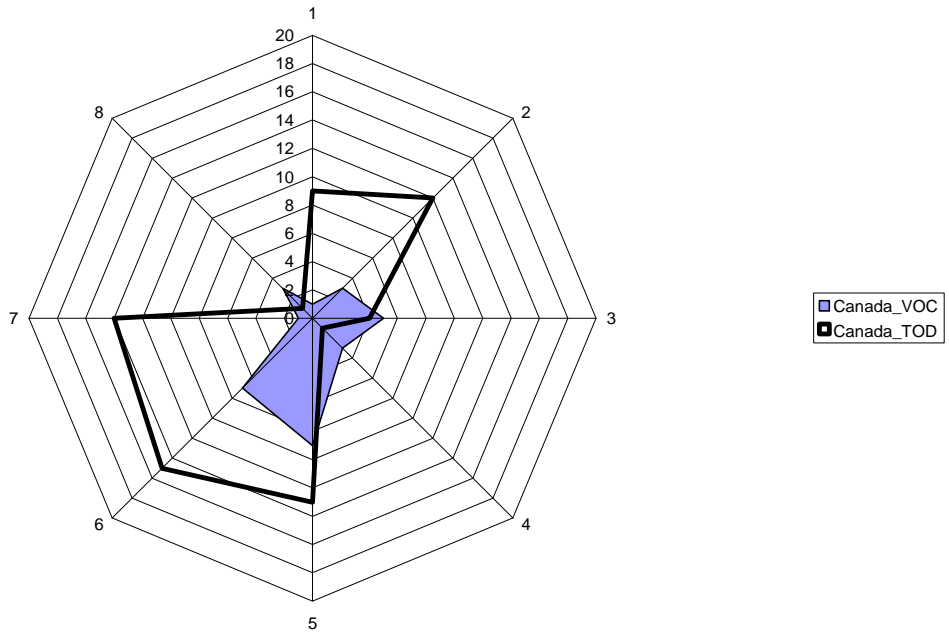
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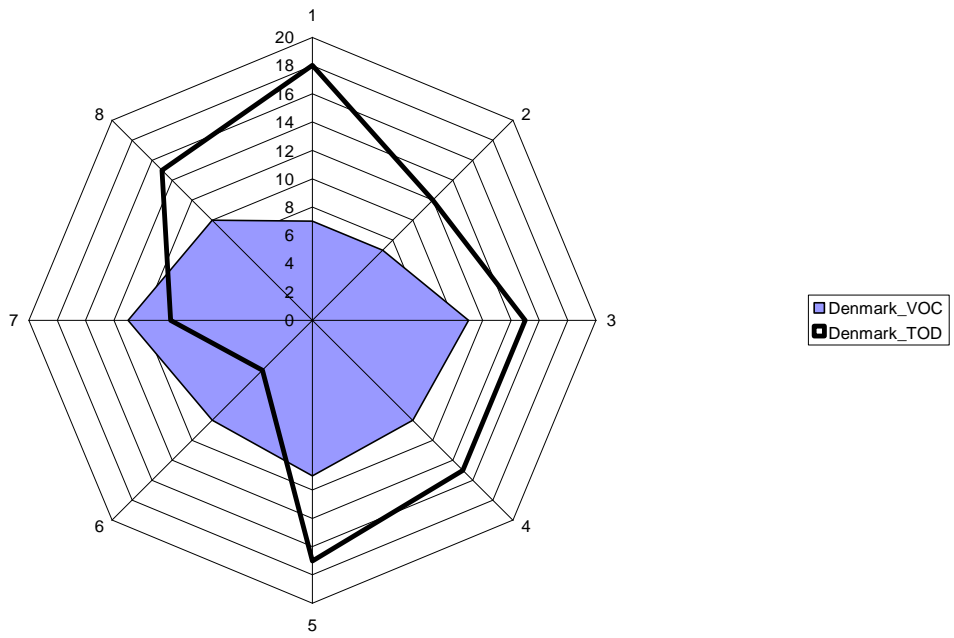
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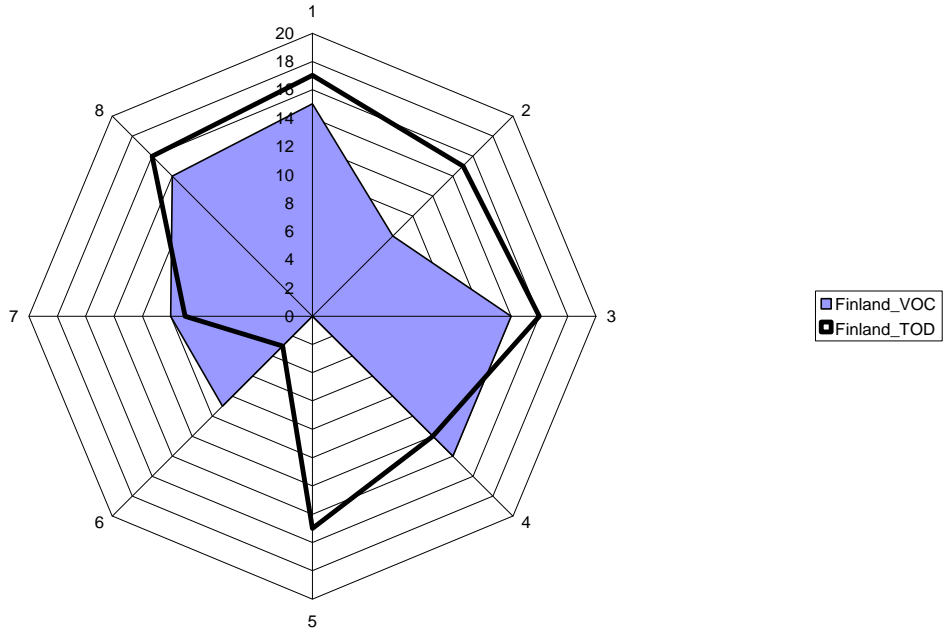
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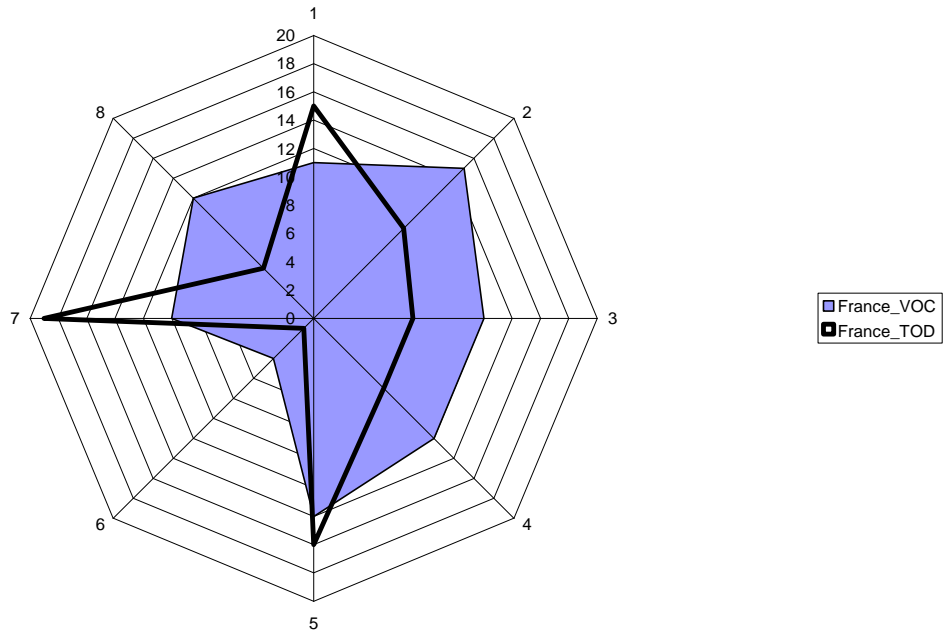
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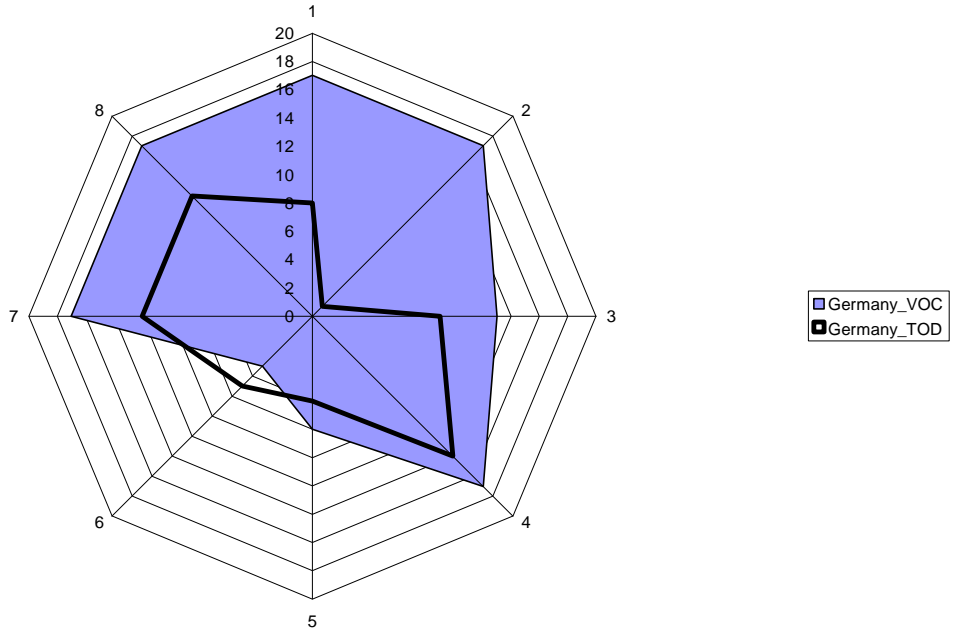
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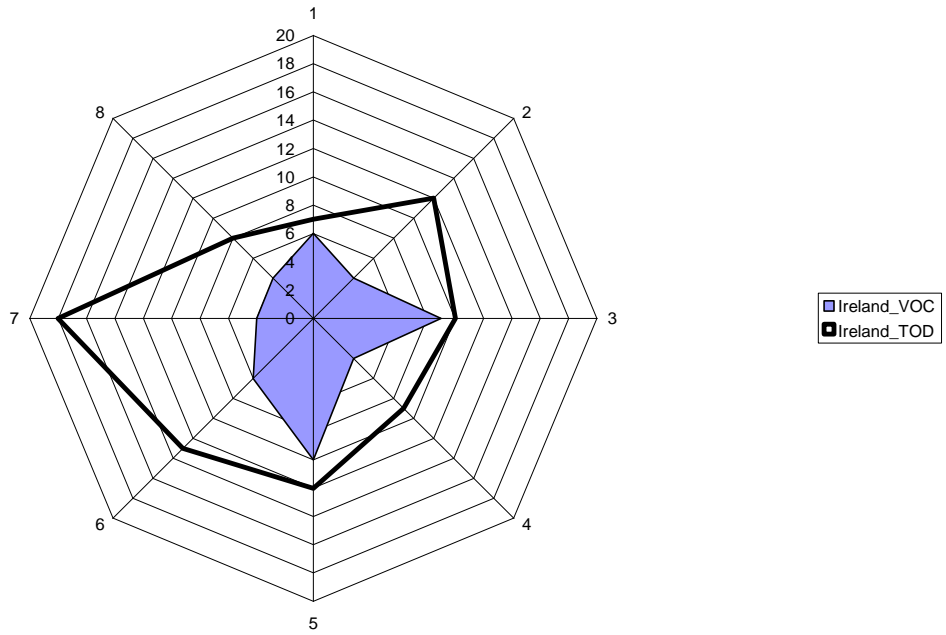
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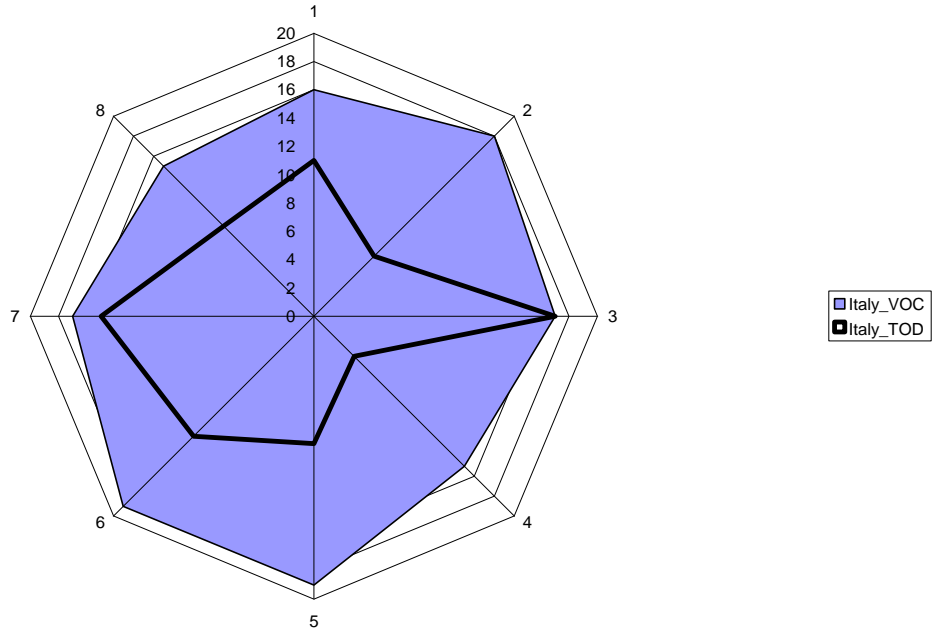
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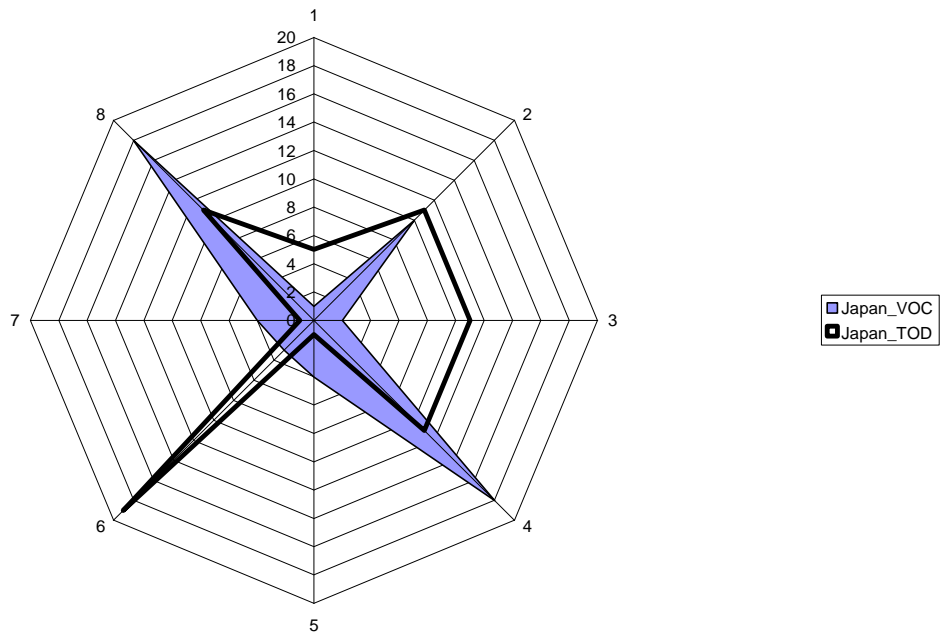
### Ireland



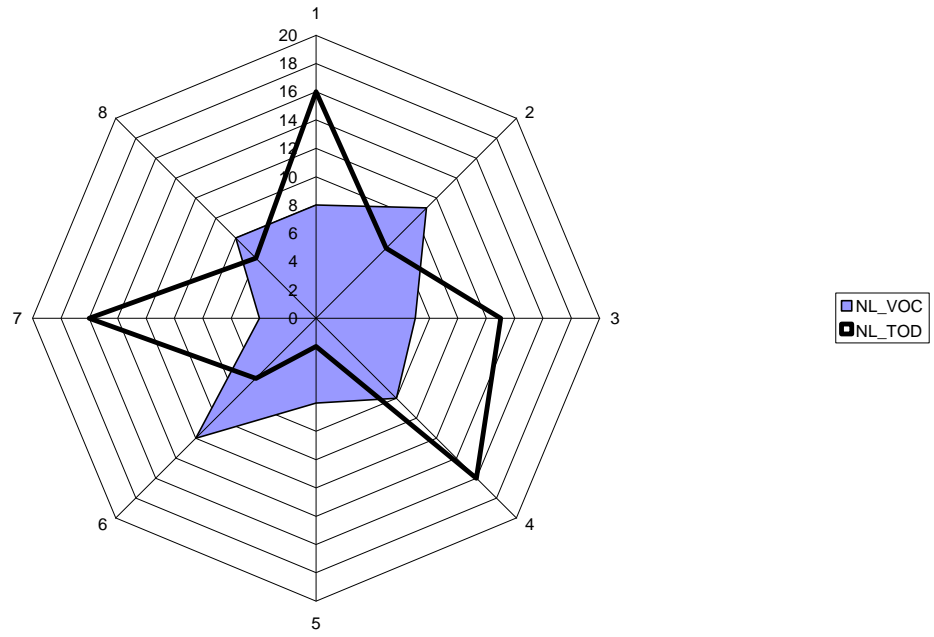
### Italy



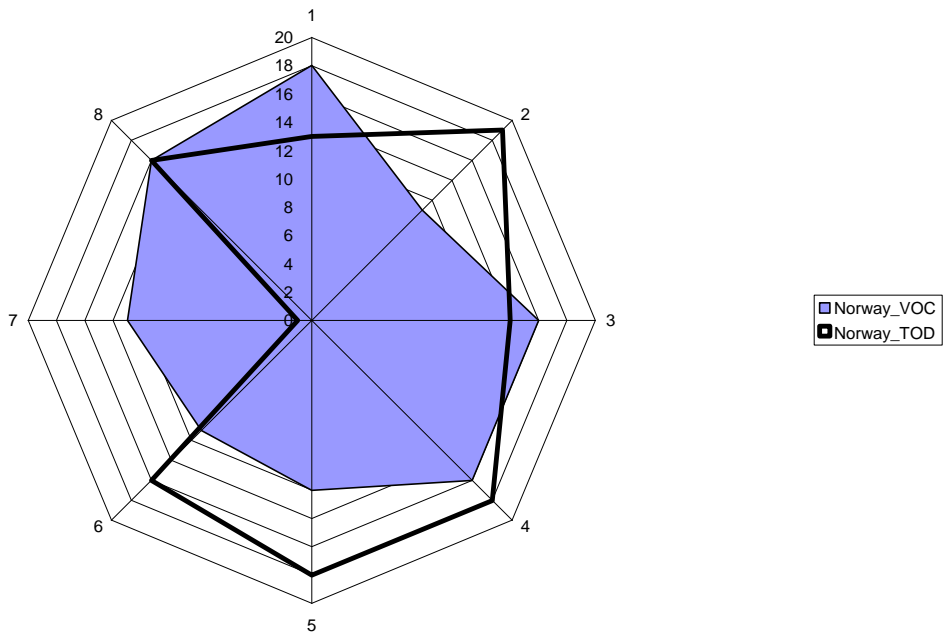
### Japan



### Netherlands

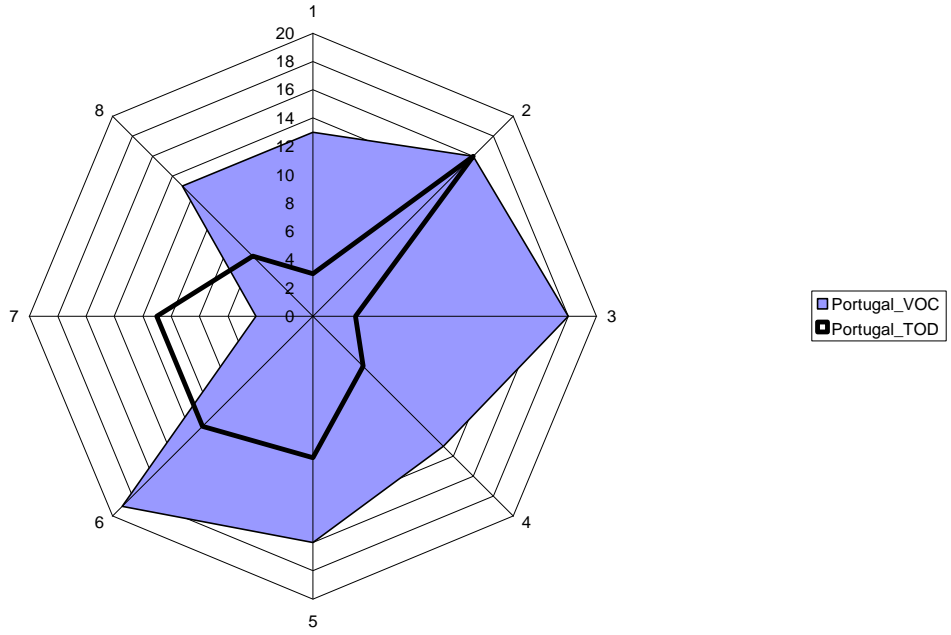


### Norway

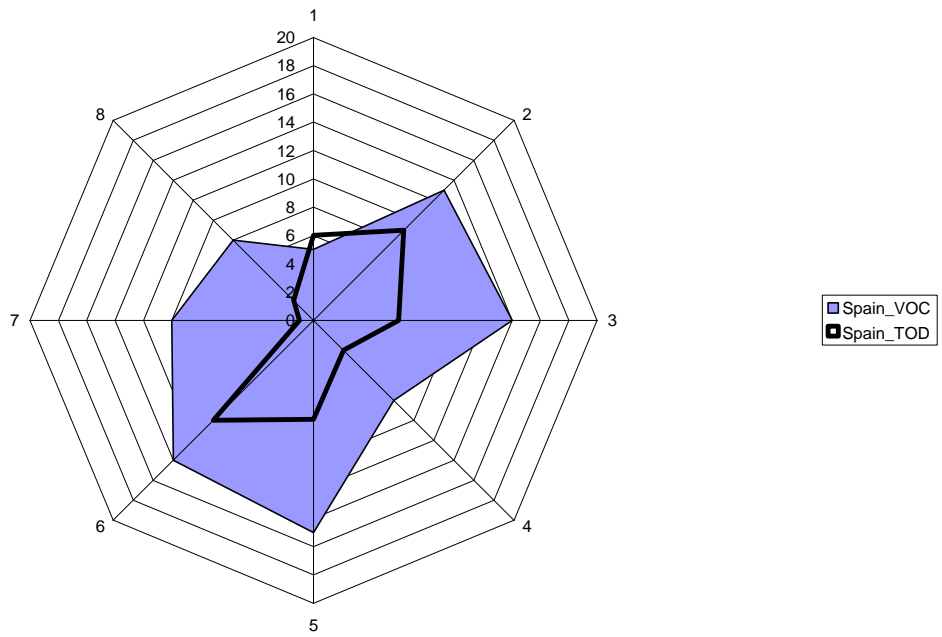




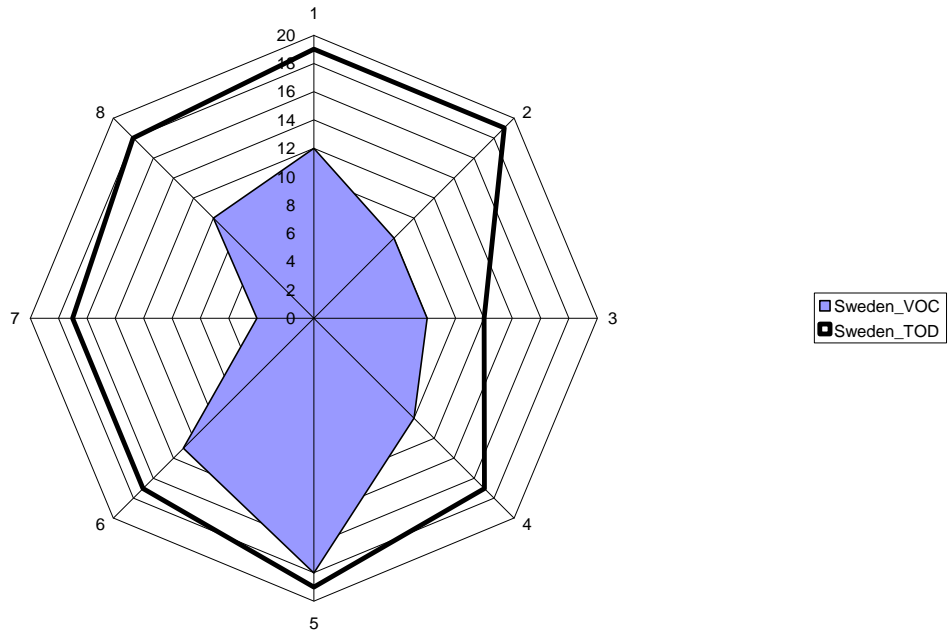
### Portugal



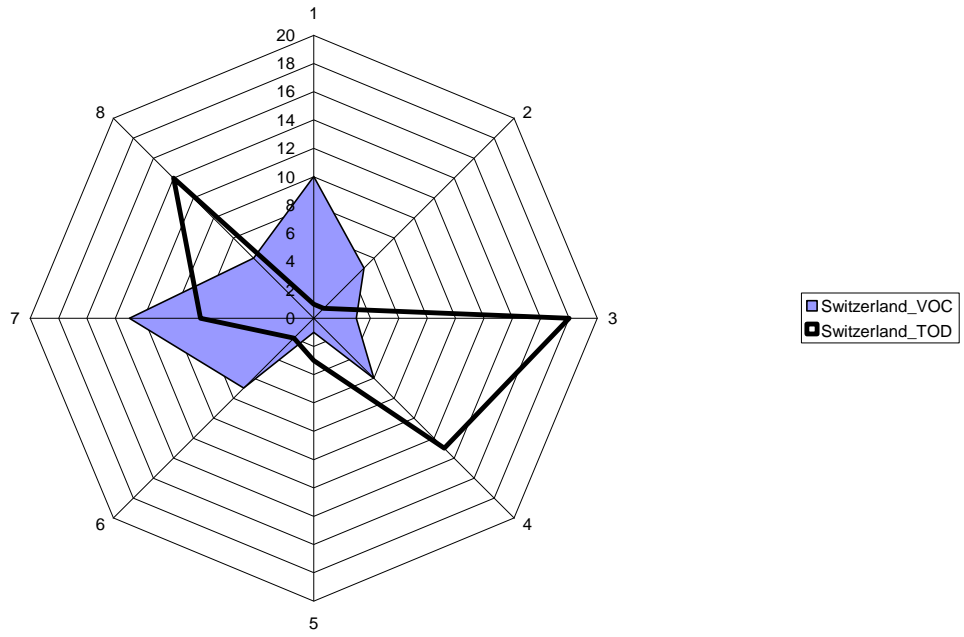
### Spain



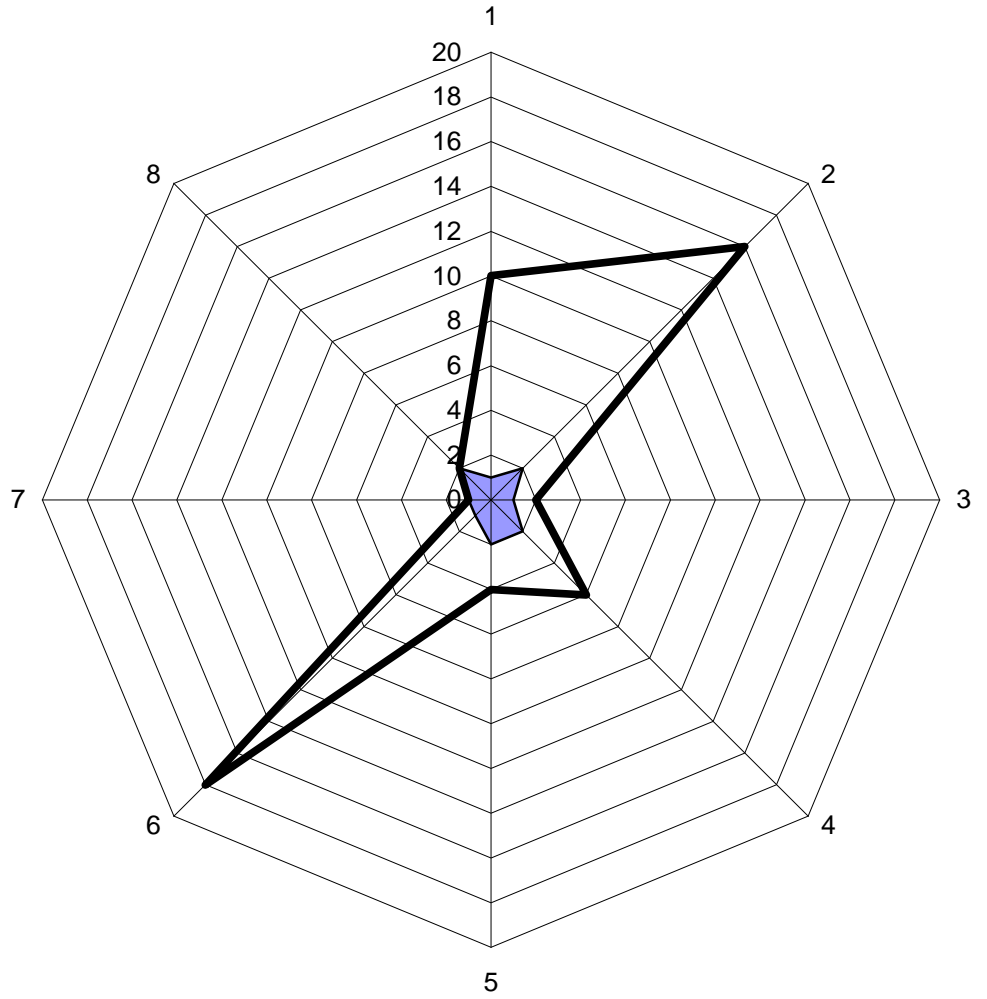
Sweden



### Switzerland



# UK



# USA

