



Geographies of Temporary Staffing Unit

Working Brief 44

Varieties of Capitalism

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Introduction

The temporary staffing industry has experienced significant growth across the globe in recent years, making it one of the largest private employers in the world in 2007 (CIETT, 2009). Given this industry is experiencing such widespread growth and becoming increasingly global, questions remain about how best to understand national markets, and how this affects the operation of the industry within them. One area of literature which addresses the concept of different national systems is Varieties of Capitalism which introduces the ideas of 'institutional complementarities' to account for co-ordination of actors within an economic system. This Working Brief provides an overview of the varieties of capitalism perspective by outlining some of its key features, the main criticisms, and alternative approaches to considering national systems of economic organisation. Overall, this Working Brief argues that the Varieties of Capitalism approach provides some insight into the ideas surrounding the comparative study of capitalist systems, however, criticisms of being too static, failing to account to regional diversity, overreliance on the firm, a distinct focus on the national, and the absence of labour from its discussions indicate that it is inherently flawed.

Varieties of Capitalism: the basics

The literatures addressing comparative capitalist systems have categorised economies according to their institutional arrangements and their level of coordination. One of the most frequently cited and discussed strand of this literature is that on the 'Varieties of Capitalism'. This approach explains how different nationally diverse forms of capitalism are present due to the arrangements of institutions, and how this affects co-ordination between actors (e.g. governments, trade bodies, firms) within a national economic system. Its central feature is the notion of a dichotomous

typology, identifying critical attributes which differentiate two systems of economic organisation (Hall and Soskice 2001) (see Table 1):

- Co-ordinated market economies (CMEs)
- Liberal Market economies (LMEs)

Table 1: Features of CMEs and LMEs

	LMEs	CMEs
<i>Corporate governance & finance</i>	<ul style="list-style-type: none"> ○ 'Arms length' rules ○ Equity finance 	<ul style="list-style-type: none"> ○ 'Insider' rules ○ Bank finance
<i>Labour market organization</i>	<ul style="list-style-type: none"> ○ Decentralized ○ Low union density 	<ul style="list-style-type: none"> ○ Centralized ○ High union density;
<i>Inter-firm relations</i>	<ul style="list-style-type: none"> ○ Arms length relations 	<ul style="list-style-type: none"> ○ Inter-firm cooperation
<i>Employment practices</i>	<ul style="list-style-type: none"> ○ Few restrictions on employment 	<ul style="list-style-type: none"> ○ Stringent restrictions on employment
<i>Training</i>	<ul style="list-style-type: none"> ○ Investment in a wide range of skills 	<ul style="list-style-type: none"> ○ Investment in firm specific skills
<i>Competition</i>	<ul style="list-style-type: none"> ○ Competitive market forces 	<ul style="list-style-type: none"> ○ Competitiveness is embedded in strategic operation
<i>Examples</i>	<ul style="list-style-type: none"> ○ Canada, UK, USA 	<ul style="list-style-type: none"> ○ France, Germany, Sweden, Austria, Denmark

- The Varieties of Capitalism perspective is based on the idea that different national economic institutions (such as financial systems; industrial relations systems; education and training) will provide opportunities for firms which will adjust their production to take advantage of these opportunities.
- It explains the different levels of economic performance in capitalist systems with reference to the combination of specific institutions creating 'institutional complementarities', meaning that national economic institutions provide 'comparative institutional advantage' (Soskice, 1999; Amable, 2000).
- The configurations of institutions are likely to provide incentives, or constraints on, particular aspects of the economy, and therefore affecting the ways in which firms can or cannot operate.
- The Varieties of Capitalism focuses on the national level of analysis and takes into account the effects of historical differences within countries and how this has affected development.

Key Criticisms

Despite the Varieties of Capitalism perspective providing one of the most systematic attempts to address different national systems and to explain different levels of performance, it has also received substantial criticism due to five key factors.

- The characterisation is seen to be too rigid and cannot account for change in capitalist systems, and since modern capitalisms are diverse and constantly changing, this is quite problematic (Crouch, 2005; Deeg and Jackson, 2007).
- The Varieties of Capitalism perspective fails to adequately recognize the role of the state (Schmidt, 2002; Watson, 2003). Taking such a predominantly firm centred approach, it makes the assumption that national institutions are uniformly present across sectors and firms (Allen, 2004).
- It fails to recognise that firms can be autonomous and that variations within firms across national systems can occur (Hancke, Rhodes and Thatcher, 2007).
- The Varieties of Capitalism approach underestimates the importance of labour, failing to theorize it as possessing agency. Labour is seen to be passive in the system, unlike firms which are conceived in a more active and dynamic manner (Thelen, 2001).
- The approach predominantly focuses on the national level of institutional arrangements failing to adequately take into account influences, and decisions made from, the international level.

Alternatives

In response to some of these criticisms, various forms of capitalism have been identified (Yeung, 2004). In some cases other categories to be included in the typologies of capitalist systems have been presented, such as the Mixed Market Economies (MMEs) where the state is seen to have a much more prominent role in co-ordination of economic actors (Schmidt, 2002). Further to this, it is suggested that new forms of capitalism are developing such as a new hybrid Chinese capitalism which displays features of both Chinese and LME forms of capitalism (Yeung, 2004).

In addition, there are other alternative approaches for considering the organisation of national economic systems from different literatures, including:

- *Business systems* - a categorisation of business systems in different national contexts. Whitley (1999) has produced a notable discussion of diversity in contemporary systems of organization within and across national boundaries, paying careful attention to the role of the firm and the state.

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- *National Systems of Innovation* - National Systems of Innovation provides a discussion of the importance of institutions that contribute to national difference (Lundvall, 1992; Nelson, 1993). This approach suggests that the arrangement of national institutions directly affects the innovative capabilities of national firms.
 - *Welfare capitalist systems* – a typology incorporating a more explicitly social dimension that differentiates between three ideal types of welfare state systems (Esping-Anderson, 1990).

While flaws can be identified in all approaches introduced here, nevertheless, they are useful for identifying suitable case studies for a comparative study. This research into the institutional context of temporary staffing will draw upon notions of varieties of capitalism, and theories of different national systems of production to identify for further study three contrasting political economic systems: the UK (liberal), Germany (corporatist) and the Czech Republic (post-socialist)(these categories and cases are discussed in more detail in Working Brief 43).

Conclusions

This Working Brief has outlined a range of literature that addresses different varieties of capitalism. The two categories of Co-ordinated Market Economies (CMEs) and Liberal Market Economies (LMEs) have been heavily criticized for being static, firm centred, presenting an overreliance on the importance of the ‘national’ and for failing to account for all actors within the economic system. Further studies have extended the typologies introduced by Hall and Soskice (2001) to include Mixed Market Economies (MMEs) and even forms of Chinese Capitalism. In addition, other literatures provide some insights into national systems of economic organization including Business systems, National Systems of Innovation and welfare capitalist systems which offer alternative perspectives for considering comparative capitalist systems. Despite providing insights into the impact of different institutional arrangements on the co-ordination of different actors within a national economic system, the Varieties of Capitalism approach has rarely been used to study the differences in labour systems and interactions within them. While taking into account the concepts and criticisms of these perspectives, part of forthcoming research on the institutional context of temporary staffing draws directly from these discussions. It will study three different political-economic systems within Europe to investigate to extent how the temporary staffing industry is affected by its institutional environment, and, in turn, how the industry impacts on the wider labor market environment.

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