Varieties and Dynamics of Capitalism in Developed Countries

Takumi Horibayashi

Introduction

Since the early 2000s, debate on “Varieties of Capitalism” in developed countries, many of which are members of OECD, has been quite popular among social scientists involved with comparative economics, politics and sociology. The history of comparative analysis of capitalism is as long as the history of capitalism itself. Refraining from entering a detailed study of this history, I will only say here that recent debate began with a book edited by Hall and Soskice, which was published in 2001 (Hall and Soskice 2001). While opposing neo-liberal dominant discourse, which considers liberalization as the best practice, Hall and Soskice try to verify that capitalism based mainly on non-market coordination (Coordinated Market Economy：CME) can coexist and actually survive together with capitalism based mainly on market coordination (Liberal Market Economy：LME). Moreover, they argue that each one wasn’t easily convergent since it has a different type of institutional complementarities and comparative institutional advantage.

It is French regulationists such as Boyer (2005) and Amable (2003) who further classify CME into three or four types of capitalism. They criticize the static and apolitical capitalist interpretation of Hall and Soskice. Boyer and Amable emphasize that endogenous structural crisis leads to change from one to another type of capitalism. The change is meditated by transition one to another type of political and economic alliance or compromise between some classes or strata. From this point of view, Boyer argues that US capitalism (growth regime) during the period from the end of WWII to the beginning of 1970s, Fordist growth regime, had transformed to another growth regime by the 1990s, which is named as the finance-led growth regime. The change was meditated by the transition from the compromise between management stratum and labor class to the alliance between management stratum and financial capitalist (Boyer 2005).

Recently, economic policy and economic discourse has changed due to the global financial crisis and recession in real economy since 2008 in developed countries. All developed countries including the US and UK that had rejected Keynesian economic policy for around three decade adopted huge amounts of fiscal spending policy in order to avoid economic and social catastrophe. In addition to this policy, the shift from liberalization to regulation in the financial sector has been remarkable in the US and EU member states. As a result, neo-liberal discourse has lost influence, although it is possible for neoliberalism to be revived, to some extent, in discourse seeking fiscal prudence.

In these theoretical surroundings, this paper aims to grasp the historical change and varieties of capitalism in developed countries. First, it summarizes view on the varieties of capitalism created by Hall and Soskice. Second, it examines several criticisms towards the work of Hall and Soskice. Third, I propose my framework to grasp the capitalist change and varieties of capitalism in developed countries. Forth, I attempt to trace the historical change and varieties of capitalism in developed countries.

1. Typology of Contemporary Capitalism by Hall and Soskice

Hall and Soskice (2001) define two types of modern political economy (capitalism): liberal market economy (LME) and coordinated market economy (CME). LME is typically represented by the US. LMEs include Australia, Canada, Ireland, New Zealand and the UK. CME is typically represented by Germany. CMEs include Austria, Belgium, Denmark, Finland, Iceland, Japan, Netherlands, Norway, Sweden and Switzerland. The modes in which the firms are coordinated determine whether a political economy belongs to LME or CME (Firm-centered political economy).

There are five important areas of economic coordination. : ①industrial relation ; ②education and vocational training ; ③corporate governance (or finance) ; ④inter-firm relation ; and ⑤employer-employee relation within firm.

In LMEs, firms operate in the surroundings of competitive markets in the above five areas, since the market is the primary institution for economic coordination in these political economy. Such political economy has a high level of stock market capitalization and low level of employment and unemployment protection. Institutions offering formal education focus on neither industry-specific nor firm-specific skills. Instead, they provide general skills. The institutional complementarity of LMEs can be found between highly fluid labor market and high level of stock market capitalization. This offers firms a better capacity to implement *radical innovation*, often providing sectors such as biotechnology, semiconductors, software and finance in the LMEs with "comparative institutional advantage". Here, "two institutions can be said to be complementary if the presence (or efficiency) of one increase the returns from (or efficiency of) the other" (Hall and Soskice, *ibid* : 17).

In CMEs, firms are coordinated by many non-market relationships that include network monitoring based on exchange of private information and collaborative relations within and between firms. Such political economy is characterized by low stock market capitalization and high level of employment and unemployment protection. In Germany, a typical CME, wages are set through industry-level (sectoral level) bargaining between trade unions and employer associations. Since CMEs have education and vocational training systems capable of providing employee with industry-specific or firm-specific skills, firms in CMEs can rely on the labor force to possess these skills. The institutional complementarity of CMEs such as complementarity between employee with industry-specific or firm-specific skills and patient capital (bank-based corporate finance) offers firms greater capacity for carrying out *incremental innovation*, which provides sectors such as mechanical engineering, transportation, consumer durables, and machine tools in the CMEs with a "comparative institutional advantage”.

Hall and Soskice define their approach as “firm-centered political economy” in which the role of the state is limited mainly to maintain and enhance existing political economies, whether LME or CME.

2. Criticism of Hall and Soskice and Alternative Views：Mapping Debate

A number of authors have responded with criticisms towards the work of Hall and Soskice. While it is possible to look into their arguments in great details, here I will limit myself to examining two kinds of criticism.

(1) Some authors insist that there exist more types of capitalism in the world than those dealt with by Hall and Soskice. In other words, the core of their argument is “beyond dichotomy” (Amable 2003, Boyer 2005, Crouch 2005, Becker 2009, Yamada 2008). While some authors argue that the state plays more important role in some developed countries than Hall and Soskice suggest, others classify CME into three or four types of capitalism.

In the view of Hancké, Rhodoes and Thatcher (2007), the state itself coordinates economy where the business associations are weak and trade unions are ideologically fragmented (étatisme in France). Alternatively, compensating states appear where business associations are well organized but their capacity is insufficient for coordinating economy with bargaining partners (compensating state in Italy and Spain). Relying on such explanation, Hancké, Rhodoes and Thatcher classify existing capitalism as four types consisting of LME, CME, étatisme and compensation state. The state plays a varying role corresponding with different types of capitalism. In LME and CME, the state provides both a framework for economic activities and a means for pursing them, while refraining from direct intervention. In étatisme and compensating state, the state directly interferes in economic activity to compensate for coordination defects.

Other authors also create their own typologies, which include state-led capitalism. Schmidt classifies the European capitalism to three type：①market capitalism； ②

managed capitalism ; and ③state capitalism (Schmidt 2002). Amable classifies five types of the existing developed capitalism based on his empirical econometrical analysis : ①market based ; ②social-democratic ; ③Asian ; ④Continental European ; and ⑤South European types of capitalism. In his analysis, state intervention in the economy (not welfare) is strongest in South European capitalism (Amable 2003).

Becker proposes the "ideal types of the varieties" not from the rigid and functionalist approach found in the VoC theory created by Hall and Soskice, but from his "open" framework and multi-disciplined approach. He places emphasis on the three criteria for classifying the existing capitalism : ①relation between capital and labor ; ②relation between politics and economy ; and ③cultural and ideological orientation. Then, he creates the four "ideal types" of contemporary capitalism in the developed countries : ①liberal type ; ②statist type ; ③corporatist type ; ④ and meso-communitarian type of capitalism (Becker 2009).

I consider multi-disciplined approach to diversity and change as important, because capitalism is a system resulting from historical and multi-dimensional, that is to say, political, economic and social processes. For instance, one can explain French statist capitalism from the tradition of dirigisme, while origins of post-WWII "managed capitalism" in Germany can be found in powerful industrial-financial groups before WWII. Likewise, the origins of post-WWII "group-based" capitalism in Japan can be found strongly in "familiarized society" before WWII, which was then transformed into firm-centered (meso-communitarian) society.

Furthermore, change of dominant ideology or theory (paradigm) in social science influence on change of capitalism (Becker 2009). Since the end of the 1970s, that is some years after breakdown of the Bretton Woods system, liberalization (deregulation), globalization (liberalization across border) and privatization have been dominant tendencies. These occurred at first in the US and UK and spread to other developed countries. These tendencies have been enhanced by dominance of neoliberalism in social science, especially in economics. Harvey details the history of the spread of neoliberalism (Harvey 2005). The spread of neoliberalism has also overlapped with the process of structural change of society characterized by individualization of “the social”. The latter originated from several events such as decreasing density of trade unions, decreasing familial-ties and an increasing culture of meritocracy.

(2) Some authors insist that capitalism essentially has more dynamism and conflictions than Hall and Soskice suggest. As Becker rightly points out ; the rigid concept of “institutional complementarities” makes explanation of dynamism and change of capitalism difficult. Although Hall and Soskice take notice of change in a CME (in Germany), they think that elementary features of CME (in Germany) remain. However, critics of Hall and Soskice have tried to create theories of capitalist change.

Even though accepting the concept of institutional complementarities, Boyer (2005) argues that capitalist change results from structural crisis, change of political alliance of social forces and change in “institutional hierarchy”. In his view, the Fordist growth regime (or regulation mode) characterizing post-WWII capitalism in developed countries implies “mass production and mass consumption”. This was built on a basis of compromise between capital and labor. In the Fordist growth regime, industrial relation institutions (compromise) were placed at the top of the “institutional hierarchy”(or configuration) in the sense that they played the most important role in the economic growth. This growth regime fell into dysfunction facing several endogenous crises including “profit compression” due to “wage explosion” in the 1970s.

After successive liberalization processes, especially financial liberalization, a finance-led growth regime appeared in the US and UK in the 1990s. In the finance-led growth regime, the driving force of the economic growth is rising asset prices such as share and housing prices. This growth regime was built through the alliance between management stratum and financial capital in which finance and international regime institutions were placed in the top of the institutional hierarchy. Thus, in Boyer’s view, crisis-ridden change of political alliance and institutional configuration causes change of type of growth regime and capitalism (Boyer 2005). One of the problem of the theory proposed by Boyer is that he doesn’t clearly explain the relation between "varieties of capitalism" and capitalist change.

While showing the causes of capitalist change such as globalization, Europeanization, rise of neoliberalism and individualization of "the social", Becker concludes: "the result is that political economies leaning towards the liberal type have become even more liberal and that of those rather approximating the corporatist, statist or meso-communitarian types became more liberal" by the present time, at least, by 2008 the year of global crisis (Becker 2009: 170). Streek (2009) argues that Germany, considered as a typical example of coordinated market capitalism by Hall and Soskice, is no longer CME and what happened in the last two decades is a re-introducing basic capitalist mechanism process. Streek places emphasis not on the "varieties" but on the "commonality" of capitalism and looks at the capitalist dynamics in the same way as Polanyi (1944) who describes the history of capitalism as a "double movement" of market expansion and social protection.

3. How Should One Grasp Historical Change and Varieties of Capitalism in Developed Countries?

What is needed for the comparative capitalist analysis is to combine capitalist change with existing varieties of capitalism or national trajectories of capitalism. Below, I point out three important aspects in order to solve this question.

First, capitalism is essentially liberal, implying that capitalism functions according to market system (Becker 2009). On the other hand, the existing capitalism is more or less socially embedded. Less embedded capitalism has usually been called "free competitive capitalism" or "liberal democratic capitalism". This is similar to what Hall and Soskice name LME. By contrast, more embedded capitalism has been named "organized capitalism"(Hilferding), or "embedded liberalism"(Ruggie 1998). "Fordism", a concept characterizing growth regime and capitalism in the post-WW II "golden age", is also another name for embedded capitalism. What Hall and Soskice name CME is one type of embedded capitalism. However, historically there existed a statist type of embedded capitalism alongside what Hall and Soskice define, that is to say, corporatist type of embedded capitalism. I propose five types of capitalism in the developed countries after WWII：①liberal (or neo-liberal) type (the US and UK after the 1980s)；②statist type (France until beginning of the 1990s)；③centralized corporatist type (Sweden until beginning of 1990s)；④corporatist type at sectoral level (Germany)；and ⑤meso-corporatist (or meso-communitarian) type (Japan until the beginning of the 1990s) of capitalism.

Second, historical "varieties of capitalism" implies "change within capitalism". Change of capitalism originates from several factors and at least three factors are important. First, changes in technology and industrial structure result in the change of leading industry and capitalism itself. Second, the contradiction resulting from the market expansion and social protection to which Polanyi referred leads to capitalist change (Polanyi 1944). Third, structural crisis, which is distinguished from short-term business cycle, leads to capitalist change.

Third, one can find dominant trend of capitalism at each age. Yamada, a leading Japanese regulationalist, call it "historical trend of capitalism" and defines less embedded capitalism dominating age as "marketization-trend" and more embedded capitalism dominating age as "institutionalization-trend"(Yamada 2008). According to Yamada, the age from 1930s to the beginning of 1970s (the end of golden age) was the age of "institutionalization-trend", while the age from beginning of the 1970s to 2008 was the age of the "marketization-trend". One can use the term "liberalization-trend" instead of "marketization-trend". In my view, capitalism of the hegemonic countries strongly influences capitalist system of other countries. Conversely, co-existence of and competition between the spatial varieties of capitalism are remarkable when no country has hegemony. However, even in such a period, one can find a historical trend of capitalism, whether marketization or institutionalization.

Taking note of the above points, I will outline the historical change and varieties of capitalism from the end of WWII to the present time.

3. 1. Capitalism of the Golden Age (1945-1973) : Varieties of "Embedded Capitalism"

Hobsbawm (1994) divides "the short twentieth century" into the following three ages : ①the age of catastrophe (1914-45) ; ②the golden age (1945-73) ; and ③the age of crisis (1973-91). Regulation Theory (RT) defines capitalism of the golden age as "Fordism". The RT theorizes both historical evolution and spatial diversity of capitalism from the perspective of "regulation" of economies by social-economic institutions. The regulation school and Polanyi share the view that capitalism systems are socio-economical architectures. I characterize capitalism of golden age, by principally adopting RT while noting Polanyi's idea about the relationship between economy and society. According to Boyer (2005), each "mode of regulation", that is to say, each type of capitalism is based on a different configuration of the following five institutional forms : ①the wage-labor nexus ; ②forms of competition ; ③the monetary regime ; ④relational configurations between the state and the economy (forms of state) ; ⑤and the modalities by which the economy is inserted into international relations system(international regimes).

In RT, the mode of regulation of capitalism in the golden age was Fordism at the level of the national economy in which a special type of institutional setting promoted both "mass production" and "mass consumption". With regard to the supply side, "the Ford production system", which resulted from technological improvement in the beginning of 20th century and was defined as Taylorism plus mechanization, spread to many industries in the developed capitalist countries, leading to a rise in the productivity of national economies with "mass production". With regard to the demand side, employees gained wages indexed to productivity in return for acceptance of the simplified work. That wage system was based on an "institutionalized compromise" between capital and labor, which was expressed in the collective bargaining system (wage-labor nexus). The post-WWII Keynesian welfare state (forms of state) also created the condition of "mass consumption" on the demand side. Moreover, the Bretton Woods regime, especially the fixed exchange rate system and the restriction of capital movement across border among the developed countries excluding the US (international regime), resulted in a relatively stable and domestic demand-oriented growth path in developed industrial countries (Boyer 2005).

Fordism contributed not only to the high-pace of economic growth but also to social progress as expressed in improvement of people's living standards in developed countries. Accordingly, Fordism was not only economically but also a socially successful mode of capitalist regulation, as Yamada argues (Yamada 2008). Using Polanyi's terminology, the economy was well "embedded" in society in the age of Fordism. Ruggie names such capitalism "embedded liberalism" (Ruggie 1998).

One should add two important facts. First, "embedded capitalism" in the golden age in developed countries was prepared in the years before and during WWII. Second, Fordism is a rather abstract and deductive concept. Specifically speaking, the "varieties of embedded capitalisms" existed among the developed countries in the golden age.

The age of catastrophe (1914-45) was, at the same time, the transition period of the political and economic hegemony from the UK to the US. Moreover, "liberal capitalism" shifted towards several kinds of "organized capitalism" in that period. In Russia, capitalism itself ended and communism appeared. Looking at the emergence of German Nazi, Russian communism and the US New Deal policy, Polanyi expressed these changes as "the great transformation" (Polanyi 1944). The "double movement" of market expansion and social protection led to the organized political economies of the 1930s.

One can compare such organized political economies with capitalism of the mid-19th century represented by that of the UK, which kept hegemonic power. The "mode of regulation" of capitalism in the mid-19th century could be seen as a "competitive mode of regulation" in which market mechanism determined wages (wage-labor nexus) and free competition determined the relations between firms (forms of competition). The state was not interventional in the economy (forms of state).

In the period between the two world wars, the economic growth (and growth regime) of capitalism, especially in the US, changed from an extensive to an intensive pattern. The Ford production system (at firm level of automobile industry) increased the productivity and opened the way to "mass production". However, US capitalism in the 1920s was not equipped with institutions for creating effective demand corresponding with the mass production that resulted in the Great Depression in the 1930s.

On the other hand, it should be noted that the institutionalization of industrial relations (Wagner Act, 1935) and social security (Social Security Act, 1935) in the New Deal era helped to bring about the post-WWII prosperous golden age (Boyer 2005). Keynes's theory strongly influenced the young economists in the New Deal era and it became a leading economic theory of the post-WWII golden age in the US. According to Kawamura (2003), US capitalism in the golden age was composed of the following six elements ; ①two basic industries : the industry producing the durable consumer goods (such as automobile) and the industry producing goods for the military ; ②mass production system ; ③big business centred system ; ④"traditional" industrial relations ; ⑤Keynesian fiscal policy ; and ⑥IMF regime (US dollar as international key currency). "Traditional" industrial relations referred to compromise between capital and labour, especially within big business and this "compromise" included wages indexed to productivity. Accordingly, the US capitalism was more "embedded" in the golden age than the LME defined by Hall and Soskice.

The origins of post-WWII German "embedded capitalism" can be found in networks that tied many large firms and banks together in powerful industrial-financial groups before the WWII. Although they were broken down after the end of WWII, it took little time for them to be reconstituted in Germany. Management associations due to such networks together with trade union organized at each industrial (sectoral) level contributed to the creation of well functioning corporatism in post-WWII Germany.

The origin of the Swedish centralized corporatism was "Saltsjöbadstalet", which defined the procedure of bargaining between the national center of management associations (SAF) and trade unions (LO).

It was Sweden and Germany that corporatism embedded capitalism in their societies. Namely, the bargaining and cooperation between management association and trade union at the national level (Sweden) or industrial level (Germany) contributed to economic growth in both countries.

Several differences should be noted between both types of capitalism in the golden age. While social democratic political forces organized "embedded capitalism" in Sweden, it was conservative political forces that organized "embedded capitalism" (social market economy) in Germany. Social democratic governments in Sweden employed Keynesian policy together with the active labor market policy (ALMP) based on the theory proposed by the two economists, Rehn and Meidona. German conservative governments, on the other hand, refrained from state intervention such as Keynesian policy—by the end of 1960s—in accordance to the theory of Ordo-school and implemented the restrictive employment and unemployment protection in the area of the labor market. With regard to Germany, we should point out that exports played an important role in the economic growth of the golden age, while economic growth in other major developed countries mainly resulted from the growing domestic demand.

In Japan, the firm-based bargaining between management and labour and "unwritten employment guarantee" (lifetime employment) resulted in strong loyalty of employees to their firms, which drove powerful economic growth (Meso-corporatist capitalism, Boyer 2005. Meso-communitarian capitalism, Becker 2009).

Post-WWII capitalism systems of France and UK were common in the respect that both economies had mixed ownership structure composed of a wide range of nationalized firms and private owned firms. French capitalism in the golden age was essentially statist capitalism, in which the state not only nationalized a number of firms in the key sectors such as mining, automobile and banking, but also promoted economic growth through indicative planning. The statist character of French capitalism resulted partly from a strong personal network between state and business, partly from militant but ideologically fragmented configuration of the trade unions. Instead of corporatism between management association and trade unions, statism embedded capitalism into society in France.

Although the UK economy achieved an economic growth in the golden age, the growth rate of GDP and productivity of the country was lower compared to other major developed countries. This originated from traditional craft unionism, which brought about neither effective sectoral bargaining nor firm level bargaining between capital and labor. The high level of conflict in the industrial relation was combined with a low rate of investment (Hall 2007). Low rate of investment led to a limited extension of mass production system in the UK. It could be said that UK capitalism in the golden age was "fettered Fordism" (Boyer 2005).

3. 2. Capitalism in the Age of Crisis (1973-1991): Structural Crises, Different Responses and Liberalization Trends

The crisis decades originated from the crisis of Fordism that had already appeared in the years from the end of the 1960s to the beginning of 1970s. First, labour forces impatient with repetitious and simplified work in the Western Europe held frequently strikes. Second, the mass production of similar goods began to be incompatible with differentiating demands of consumers. Third, "wage explosion" resulted in "profit compression" in some Western countries narrowing the space of compromise between capital and labour. Fourth, the change of international regime, that is, the shift of a fixed to a floating exchange rate system (thus ending the Bretton Woods regime) opened the way to an acceleration of transnational movement of capital (globalization). This eroded Fordist compromises between capital and labour set inner-borders. The crisis of Fordism was endogenous structural crisis in the sense that Fordist type of capitalism exhausted the capacity of economic growth. As a result, developed countries fell in stagnation in the beginning of the 1970s.

However, it should be noted that there were other factors combined with crisis or difficulties in developed countries. First, the "oil crisis" of 1973 hit developed countries and brought about inflation together with wage-increase over productivity-increase. Stagnation combined with inflation was called “stagflation” at that time. Second, social structure changed. Many developed countries faced the problems resulting from aging society. Increasing individualism represented by rising number of divorces weakened the socialties, partly explaining the rise of neo-liberal ideology after the mid-1970s. Third, the emerging countries began to attract FDI from developed countries, which enforced structural changes to the developed countries. Seeking cheaper labour costs, the multinationals in developed countries moved their low-skilled segments to emerging countries, which caused a decrease of demand for low-skilled labour in developed countries.

Facing structural crisis and other challenges, developed countries responded in different ways. Radical responses occurred in the US, the UK and France, while changes in Germany, Sweden and Japan were gradual.

It was the US and UK that experienced serious stagflation in the 1970s. The annual average growth rate declined in the US from 4.1 percent in the period of 1962-73 to 2.4 percent in the period of 1973-9. The US unemployment and inflation rate in 1979 amounted to 5.8 percent and 5 percent respectively. The annual average growth rate declined in the UK from 3.3 percent in the period of 1962-73 to 1.7 percent in the period of 1973-9. The UK unemployment and inflation rate in 1979 amounted 5 percent and 13.6 percent, respectively. As for Japan, unemployment and inflation rate in 1979 were 2.1 percent and 3.6 percent respectively. German unemployment and inflation figures in 1979 were 3.2 percent and 4.2 percent respectively. From the above figures, one can recognize economic performance was worse in the US and UK than in Japan and Germany. The comparative economic position of the US became weaker. Conversely, Japan and Germany caught up with the US quickly, bringing about the multi-polar configuration of the economic power within the capitalist sphere in the 1970s and 1980s.

Under such conditions, the Reagan administration, which was established in 1981, abandoned the Keynesian policy and implemented a number of neo-liberal policies. Their major components were as follows：①tax reduction for the corporations and the wealthy；②deregulation such as loose application of Antitrust

Law ; and ③weakening post-WWII industrial relations through oppression of trade union. These policies aimed at creating more favorite conditions for firms, that is, the supply side in order to revive the higher growth rate. On the other hand, these policies implied change from "embedded" to "much less embedded" capitalism. Indeed, US capitalism moved towards the LME (liberal market economy) defined by Hall and Soskice. The Reagan administration did not succeed in achieving sustainable economic growth. After the miid-1980s, the US economy fell into "twin deficit", that is, current account deficit and fiscal deficit. The current account deficit of the US originated from its weaker competitiveness in exporting manufacturing goods compared to Japan and Germany. On the other hand, the US fiscal deficit resulted from huge military spending amounts and tax reduction.

After the failure of policies against stagflation through income policy by the Labour government, the Thatcher-led Conservative Party took office in 1979 in the UK. Thatcher's government also implemented policies similar to those of the Reagan administration in the US. In addition to tax reduction for firms and the wealthy and polices weakening trade unions, the UK government privatized the state-owned firms nationalized soon after the end of WWII. State-owned firms were privatized subsequently after 1979 included those in the oil, steel, aircraft, telecommunication and public utilities sectors. UK capitalism also moved toward a LME.

One should note other important facts that have occurred in the US and UK since the 1970s. In both countries, the "servicization" of the economy proceeded earlier than other developed countries. The wage level of those working in consumer-related service sectors such as employees of the restaurant, hotel and retail trade was generally lower than those working in manufacturing sectors (low road of servicization). On the other hand, the wage level of those working in business-related services such as business consultants, software engineer and financial sector employees is generally higher than those working in manufacturing sectors (high road of servicization). Servicization in the US and UK resulted in a low wage economy by the end of 1980s (low road of servicization as the dominant tendency). On the other hand, the financialization of the economy, that is, the increasing weight of financial sector both in employment and in GDP after the 1970s prepared the way for finance-led growth regime established in the 1990s in the US and UK.

France responded to economic difficulties with completely different measures to the US and UK. French unemployment and inflation rates amounted to 6 percent and 11 percent respectively in 1979. The President Mitterrand-led socialist administration extended the state-owned sector and implemented a Keynesian fiscal spending policy after 1981. While the socialist-led government nationalized 800 big businesses and almost all banks, it increased the wages of civic servants and welfare spending.

However, the experiment of Keynesianism brought about an increase of the current account deficit, devaluation of the French franc and increased unemployment. After failed attempts towards stronger statist capitalism, the French leader employed other ways. The Gaullist prime minister, Jacques Chirac carried out privatization of state-owned big business and banks and promoted liberalization from 1986. On the other hand, a leading member of the French Socialist Party as well as the President of European Commission from 1985, Jacques Derors sought for the French economy to survive and grow in the European single market. He also attempted at bringing in common social policy (“Social Europe”) for the EC, which the UK conservative government stood against. Although there were swings in French economic policy, the economic system still remained statist capitalism in the 1980s. However, it should be noted that the influence of liberalization spread to France, especially in the area of finance, in the late 1980s.

Strong German corporatism, which made the country the top economic position among the European countries, survived in the 1970s and 1980s. While maintaining bargaining between capital and labour at sectoral level, German Social Democratic Party-led governments enhanced the competence of the “co-determinant system” between management and workers on the social policy and personnel management policy within firms in order to enhance commitment of employees to the firm management (in Germany, the co-determinant system was already introduced in the 1950s). On the other hand, German firms placed more emphasis on quality competition than price competition (Streek 1997). "Coordinated market system" suited to this strategy made Germany a strong competitive export country alongside Japan in the 1970s and 1980s. That was also the one way to deal with the structural crisis, namely to cope with differentiated consumers' demands.

While keeping centralized (nation-wide) bargaining between capital and labour, Sweden in the 1970s and 1980s coped with structural crisis, that is, Fordist crisis. The Volvo, the major Swedish firm in the automobile industry, abolished the belt conveyor production system in its Uddevalla and Kalma factories in order to create a more human and flexible production system. Moreover, the country introduced codeterminant system similar to that of Germany to promote commitment of employees to the firm management. By introducing such experiments, Sweden could meet requirements of post-Fordist age : a more human labour form than that of Fordism, and a flexible production form coping with diversified demands.

One of the specific features of the Swedish policy after the 1970s was that the country began to place emphasis of welfare on social services (Pontusson 1997 ; Esping-Andersen 1996). While maintaining high level of transfer payments, Sweden encouraged women to participate in the labour market by mitigating their domestic care work, whether it is care for children or for the elders. The country increased the number of the nursery schools, kindergartens, the care houses and visiting care workers to the elder.

Although Sweden continued to practice a social democratic type of capitalism in the 1980s, the wave of neoliberalism and financial liberalization reached the country. While tax reduction for the wealthy were carried out, financial liberalization caused a mortgage bubble in the late 1980s. Moreover, management and trade unions in Swedish multinationals sought more decentralized bargaining with regard to wage and labour conditions, threatening the traditional centralized industrial relations in the county. Thus, the Engineering Employers' Association and the corresponding trade union of the metal industry withdrew the national level of bargaining in 1983, while they began their own sectoral bargaining.

Although Japan faced stagflation in the mid-1970s, the country emerged as the economically strongest rival of the US in the 1980s. The country quickly achieved technological improvements in manufacturing sectors such as automobile and electronics by exploiting strong employee loyalties to their firms, something which originated from meso-communitarian or meso-corporatism. While the main origin of economic growth in the golden age was both domestic investment and consumption, it was exports in 1980s Japan. As a result, trade conflict between Japan and the US became very serious.

Neoliberalism influenced Japan, to some extent, leading to the privatization of the state-owned railroad firm in the 1980s.

As a whole, capitalist diversity among the developed countries remained in the 1970s and 1980s. The most important change occurred in the US and UK where embeddings of capitalism in society became extremely weak. Furthermore, one can find tendencies towards liberalization in all major developed countries. However, it was from the 1990s that these tendencies became much stronger.

3. 3. Capitalism from the 1990s：Emergence of Finance-led Capitalism and its Collapse in the US, and the Tendencies of Other Developed Countries

“The short twentieth century” and “age of crisis” described by Hobsbawm ended in 1991, the year the Soviet Union dissolved. What age emerged after the age of crisis? Above all, one could characterize the past two decades as an age of emerging and breakdown of finance-led capitalism in the US. Although capitalist diversity among developed countries remained, it was US finance-led capitalism that was most influential and enjoyed prosperity until the time “housing bubble” burst.

What is finance-led capitalism? According to Yamada, it is the form of capitalism that existed in the US from the beginning of the 1990s, in which the financial sector of the economy or asset prices led the real (material) economy (Yamada 2008). In this kind of capitalism, the starting point of economic growth was the price increase of financial assets (e.g. share price increase in the 1990s and price increase of subprime loan-related securities in the 2000s) or a price increase of real assets (e.g. housing price increase in the 2000s).

One can compare this finance-led capitalism with the Fordist type of capitalism of the 'golden age', in which the starting point of economic growth was wage increase indexed productivity. The Fordist type of capitalism was a kind of "embedded capitalism" in the sense that it was capitalism on the basis of the compromise between capital and labour. After this golden age, US capitalism had transformed from Fordism into finance-led capitalism by beginning of the 1990s, passing through a transition period of the Reagan and senior Bush administrations which tried to break down traditional industrial relations by weakening trade unions and replacing Keynesian fiscal policy with supply-side economics as described above.

Crouch (2008) divides the post-World War II capitalist systems of the US and UK into two types. The first one is characterized as a regime of "original Keynesianism", which collapsed in the 1970s. The second one is characterized as a regime of "privatized Keynesianism". According to Crouch, US and UK capitalism shifted from a regime with counter-cyclical state policies to secure income and employment in times of recession (original Keynesianism) to a regime accompanied by the growth of private credit markets for poor and middle-income groups to compensate for stagnating salaries and job insecurity (privatized Keynesianism). Even if Crouch's view is not necessarily the same as that of the Regulation school, both are similar in the respect that they consider that the financial sector produced economic prosperity in the US and UK from the beginning of 1990s. Here, I limit my analysis to US finance-led capitalism.

What brought about the US finance-led capitalism? The following four elements at least could be pointed out.

①The collapse of the Bretton Woods regime at the beginning of the 1970s.

The abolishment of the obligation for US to exchange the US dollar with gold ("Nixon Shock" in 1971) resulted in an excessive US dollars and increased international excessive-capital, originating from a continuation of US current account deficit and financial globalization.

②A change of industrial structure since the 1970s in US

As described above, a shift from manufacturing to service sectors occurred in the US earlier than other developed countries such as Japan and Germany. The latter two countries had maintained a comparative advantage in exporting manufacturing goods by the 1980s to the US. During this time, the US administrations tried to maintain a comparative advantage in the financial sector.

③Financial liberalization and globalization

Financial activities have increased through their liberalization since the 1970s. Financial liberalization included at least four measures in the US. Firstly, regulation against capital transaction across borders was removed in 1976. The same measure (liberalization of cross-border capital transaction) was adopted in other developed countries from 1970s to 1980s. Emerging countries promoted financial globalization in the 1990s. Secondly, regulation against commercial banks determining the deposit interest rate was removed in 1986 in the US. Thirdly, regulations against the location of financial institutions were removed by the mid-1990s in the US. Fourthly, rules separating commercial banking from investment banking activities were removed in 1998 and it became possible for commercial banks to engage in investment banking activities in the US.

④Financial innovation

This includes the securitization and development of future market and financial derivatives. Securitization of mortgage-debt began in the 1970s and securitization of bank-loans in general became possible from 1986 in the US. Financial innovation based on development of financial engineering created various types of future market and financial derivative instrument such as sub-prime loan-related securities and CDS, prompting capital (US dollar) inflow from foreign countries into the US since the 1990s.

How did finance-led capitalism bring about prosperity in the 1990s and a financial crisis in the 2000s in the US?

Except for a short period after the Asian currency crisis, share price in the US had constantly risen until the collapse of the dot-com bubble in 2001. Thanks to share price increases, US firms expanded their investments, while at the same time, US households expanded consumption. The share of household consumption to GDP continually increased and amounted to 70 percent by the beginning of the 2000s in the US. As described above, US capitalism was finance-led capitalism in the sense that the rise of share prices increased investment and consumption and induced GDP growth (Yamada 2008). It could be said that at least by the late 1990s improvement of the real economy including the "IT revolution"—increase of investment and production in the IT sector and an increase in productivity in many sectors due to the use of IT instruments—contributed to constant share price increases.

However, it was apparent that the increased share prices since the late 1990s could mostly be attributed to a large amount of foreign investment in the US stock market, particularly in IT firms' shares. Then several years of enthusiast stock market activity resulted in the bursting of the dot-com bubble (IT bubble) in 2001.

Then the FRB lowered interest rates step by step to one per cent by 2004. In this period, housing prices steadily increased due to the rising demand for housing by the poor and middle classes. Poor and middle class groups were able to gain easier access to sub-prime loans at lower interest rates. The rise of housing prices stimulated consumption of other goods such as automobiles. This is what economists call an "asset effect" and what Crouch names "privatized Kenynesianism" (Crouch 2008). The FRB feared a "housing bubble" was developing and turned its stance toward a more restrictive monetary policy (i. e., increased of interest rates). However, the FRB could not cool down the over-heating housing boom. On the one hand, the long-term interest rate did not rise because a large amount of Asian excess-US dollars due to current surplus flowed into the US state bond market. On the other hand, European excess-US dollars were invested more into the US sub-prime loan- related securities.

The US housing price began to fall since 2006, which meant the "end of the housing bubble". Then the price of sub-prime loan-related securities also began to fall. It brought about great losses for financial institutions, which owned the above securities, and led to some bankruptcies in the financial sector. The bankruptcy of the Lehman Brothers, one of largest investment banks of the US, on 15 September 2008 was epoch-making from which everybody knew that a serious financial crisis had hit. The US financial crisis deepened, leading to a serious recession of the US real economy. The seriousness of the US recession was represented by the bankruptcy of GM and its subsequent nationalization. The US crisis immediately spread around the world.

The above describes the history of US finance-led capitalism. What was the situation with capitalist systems in other developed countries? My answer is that all other types of capitalism, more or less, shifted towards a "liberal market economy" (terminology of Hall and Soskice) or "market-based capitalism"(terminology of Amable) during the last two decades, even if capitalist diversity remained. Streek is right when he says："the time has come to think, again, about commonalities of capitalism"(Streek 2009：1).

The UK had enjoyed continuous economic growth since mid-1992. Similar to the US situation, this economic boom was attributed mostly to finance-led capitalism. The "City", one of the biggest world financial centers located in London, attracted a great amount of global money and gained profit by investing it all over the world, be it to developed or emerging economies. Moreover, excessive money caused a long-lasting "housing boom" which stimulated household consumption in the country. The"New Labour"government led by Tony Blair, which was established in 1997, proclaimed "the third way"."The third way" implied neither the old social democratic nor the neo-liberal way. Certainly, New Labour did not return to social democratic policies, but it succeeded the essence of neo-liberal policies from previous conservative governments.

Although New Labour governments made concession to trade union through a number of social policies such as the re-introduction of the minimum wage, it also maintained good relations with management associations. The UK was hit by the financial crisis in 2007 and crisis deepened after 2008. This crisis was brought about not only from the US crisis but also from burst of the housing bubble in the country. Market-based and finance-led capitalism ended also in the UK.

Rising finance-led capitalism influenced post-1990s French capitalism. French corporate finance shifted from the bank-based to capital market based and the ratio of the foreign-owned shares in big French firms increased in the 1990s. While, in finance of the French firms, the ratio of bank borrowing was 55 percent and the ratio of financing from stock market 31 percent in 1990, the former ratio declined to 28 percent and the latter ratio rose to 53 percent by 2000. In 2003, foreign investors owned almost 40 percent of the shares of the leading 40 French firms (Hall 2007). This also reveals the shift of French capitalism toward market-based capitalism.

Although strong personal ties between state and business remained strong in France, state intervention in the economy became weaker due to successive privatization in the 1990s. This also shows the shift of French capitalism to market types of capitalism. However, the state still plays a large role, especially in the area of welfare. In 2003, the ratio of social expenditure to the GDP amounted to 29 percent in France, which was the second largest figure among members of the OECD after Sweden (31 percent). When French governments, especially conservative ones repeatedly attempted to curtail welfare spending, they met strong public resistance. Although "market expansion" has been a major trend for the past two decades, "counter movement from society" was still strong in France.

Certain elements of German capitalism have also been eroded during the past two decades, mainly due to three events : German unification, deepening EU integration and accelerating globalization. While German unification created new markets for the firms of former West Germany bringing about an economic boom, it imposed heavy burdens on public finance of the region. The former West Germany financed social payments for the unemployed and resources to restore cities and build modern infrastructures in the former East Germany. This caused fiscal deficit and inflation in united Germany. Then austere monetary policy was introduced against inflation, leading to a recession in the 1990s. Moreover, the Maastricht criteria (and later, Growth and Stability Pact) enforced Germany to keep fiscal deficit below 3 percent to the GDP, prolonging the German recession for a longer period than expected. On the other hand, the creation of the single European market and accelerating globalization strongly influenced the activities of German firms and financial institutions.

Under these conditions, post-WWII industrial relations and corporate governance in Germany has changed. As described above, sector bargaining was highly institutionalized, addressing wage and non-wage issues and work council in the firm supplemented it. These institutions extended to the East German Länder. However, employers with the lowest capacity to sustain the costs of sectoral agreements in the East German Länder withdrew from the sectoral bargaining and smaller firms in Western Germany in the long-lasting recession followed their examples. Since then, sectoral bargaining coverage has decreased by about 10 to 15 percent (Visser 2008).

Seven major businesses such as Daimler AG and Deutsche Telecom AG are now listed on the New York Stock Exchange. Moreover, the Deutsche Bank absorbed the investment banks of the US and UK in order to enhance its own functions as an investment bank. These were symbolic signs of change from traditional German type of corporate finance (bank-based) to market-based corporate finance (typically in the US and UK). Large firms and financial institutions in Germany have begun to seek benefits from Europeanized and globalized market more than before. However, it is also true that “most firms still fund investment from retained earning and bank finance, and the government has resisted measures that would enforce shareholder value by promoting hostile takeovers”(Hall 2007：70). As I describe later, Japan’s case is similar to Germany in this respect.

One of the most remarkable features of Swedish capitalism disappeared in 1991, the year when the “housing bubble” burst and the country fell in recession. The SAF, a national center of management-associations, withdrew from nation-wide bargaining with LO, a national center of trade unions. Bargaining between capital and labour then decentralized to sector and firm level.

Due to the recession, the unemployment ratio amounted to about 10 percent in 1993. However, from 1993 Swedish economic growth became positive and unemployment ratio declined to 5.4 percent in 1999, although it was still high rate of unemployment in Swedish history since 1945. The Swedish welfare state and economic policy changed due to these severe economic conditions and accession to the EU in 1995. According to Esping-Andersen, "For budgetary reasons, government have reduced social benefits : lowering replacement rates, introducing waiting days for sickness benefits, shortening the duration of unemployment pay" (Esping-Andersen 1999 : 80). Due to the EU accession, Swedish policy emphasis has shifted from full employment and fair income redistribution to budget equilibrium and anti-inflation.

However, the Swedish level of social expenditure is still the highest and poverty ratio is very low compared to other OECD members. Thus, it was "circumscribed neoliberalization" that occurred in Sweden (Harvey 2005 : 115) and the country maintains social democratic type of capitalism.

As described above, deepening EU integration has influenced European capitalism. The purpose of creating a single market and currency did not originate from neoliberalism. However, measures for achieving goal such as liberalization of capital movement and budget equilibrium mostly correspond with neo-liberal agendas. On the other hand, the EU has sought another aim, that is, the creation of the "Social Europe" or "the European Social Model". But, in fact, that was secondary aim of EU integration. In this sense, van Aperdoorn is right when he defines EU integration policy as "embedded neo-liberalism" (van Aperdoorn 2009).

Japan fell into recession in the beginning of 1990s due to the burst of the "assets bubble". Although the Japanese economy revived in the mid-1990s and the growth rate of GDP amounted to 3.5 percent in 1996, it fell into recession again after 1997 mainly due to the Asian economic crisis and policy mistakes such as raising value added tax. Japan entered a trajectory of slow economic growth during the period 2002-2007, mainly attributable to the increased exports, especially to Asian emerging countries and the US. The global crisis hit Japan seriously in 2008. As a whole, the Japanese economy has stagnated during the past two decades. That is why the period is often called the "lost two decades" in Japan.

Components of the Japanese economic system changed during that period. Change was remarkable in the labor market. The lifetime employment system was one of the important features of Japanese capitalism for a long time after the WWII. It has become limited to core workers working at big firms over the “lost two decades”. Presently, one third of total workers in Japan are atypical workers such part-timers and fixed term worker and agency workers. Increasing numbers of atypical worker has resulted in an increased poverty ratio in Japan amounting to 16 percent in 2007. This is the fourth highest following Mexico, Turkey and the US among the OECD members.

Although financial liberalization proceeded in the “lost two decades”, Japan remains a country of bank-based corporate finance, especially with regard to SMEs and the share of financial sector both in the GDP and employment is much smaller than that of the US and UK.

4. Historical Trends and Prospects of Capitalism in Developed Countries

From the above description, one can see the trend or change of capitalism of developed countries. The golden age (1945-1973) is characterized by “embedding” or “institutionalizing-trend”. Since the trend of “institutionalizing” already began in the 1930s (Yamada 2008), capitalism as an “institutionalizing” trend had a history of lasting around 40 years. Then, the trend of capitalism changed into liberalization and that trend continued until 2008, the year of the global economic crisis.

Can one say that the trend of “institutionalization” or “embedding” of capitalism emerged again? It is still an open question, but now one can find two tendencies different from the age of liberalization in developed capitalism. First, not liberalization but regulation in the finance sector is the main tendency in the US, the EU and the core member states of the EU. Second, the US and the UK try to revive industries including “green” sectors. The phrases of the US President Obama such as “from Wall Street to Main Street” and “Green New Deal” reveal the end of finance-led capitalism and a shift to a new type of capitalism in which not the financial sector but perhaps new ecological industries such as industries for production of electric cars and electric power from sun will lead the economy. The UK’s new

Prime Minister Cameron also places a policy emphasis on the revival of industry in the country.

However, there are other tendencies, too. Historically, Keynesian policies combined with the trend of "institutionalization" of capitalism. Major developed countries employed a Keynesian fiscal spending policy for fighting the recession after 2008. However, a number of European core countries such as Germany and the UK are now moving towards fiscal austerity policies, influenced by the sovereign debt crisis of Greece. The budgetary equilibrium was a key element of neo-liberal agendas. Austerity polices will impose social costs on people and make the pace of domestic demand recovery slower. In this case, the remaining path of economic recovery will be expansion of exports to emerging countries, especially to China and India, which have been driving forces for recovery of the world economy since 2008. Furthermore, capital movements from developed to the emerging countries has been accelerated during the global economic crisis. This tendency might be more dominant due to the enhancing of regulation in developed countries.

Therefore, it is an open question whether capitalism in developed countries will become more "institutionalized" or still remains one with trend of liberalization.

Note

This paper is based on the first half of my presentation at the Workshop on "Varieties of Capitalism in Russia and East European Countries : A Comparison with Developed Countries" held at CREES, University of Birmingham on 22 September 2010. I wish to thank Julian Cooper, Solomon Cohen and Richard Connolly for their useful and helpful comments at the Workshop.

References

Amable, B. (2003) *Diversity of Modern Capitalism*, Oxford.

Becker, U. (2009) *Open Varieties of Capitalism*, Palgrave Macmillan.

Boyer, R. (2005) *Capitalism vs. Capitalism*, (Japanese Version), Fujiwara Shoten.

Crouch, C. (2005) *Capitalist Diversity and Change*, Oxford.

Crouch, C. (2008) "What Will Follow the Demise of Privatized Keynesianism" *The Political Quarterly* 79(4).

Esping-Andersen, G. (1996) *Welfare State in Transition*, SAGE publications.

Esping-Andersen, G. (1999) *Social Foundation of Postindustrial Economies*, Oxford.

Hall, A. and D. Soskice, eds. (2001) *Varieties of Capitalism*, Oxford.

Hall, A. (2007) "The Evolution of Varieties of Capitalism in Europe" in Hancké, B., Rhodes, M. and M. Thatcher, eds. *Beyond Varieties of Capitalism*, Oxford.

Hancké, B., Rhodes, M. and M. Thatcher (2007) "Introduction：Beyond Varieties of Capitalism", in Hancké, B., Rhodes, M. and M.Thatcher eds. *Beyond Varieties of Capitalism*, Oxford.

Harvey, D. (2005) *A Brief History of Neoliberalism*, Oxford.

Hobsbawm, E. (1994) *Age of Extremes*, Abacus.

Kawamura, T. (2003), *Contemporary US Economy* (in Japanese) Yuhikaku.

Polanyi, K. (1944) *The Great Transformation*, Rinehart & Co.

Pontusson, J.(1997) "Between Neo-liberalism and the German Model：Swedish Capitalism in Transition", in Crouch, C. and W. Streek eds. *Political Economy of Modern Capitalism*, Sage Publisher.

Ruggie, J. (1998) "Globalization and the Embedded Liberalism Compromise", in Streek, ed., *Internationale Wirtshaft, Nationnale Demokratie*, Camus.

Schmidt, V.A. (2002) *The Futures of European Capitalism*, Oxford.

Streek, W. (1997) "German Capitalism：Does It Exist? Can It Survive? in Crouch, C. and W. Streek eds. *Political Economy of Modern Capitalism*, Sage Publisher.

Streek, W. (2009) *Re-forming Capitalism*, Oxford.

van Aperdoorn B., eds. (2009) *Contradictions and Limits of Neoliberal European Governance*, Palgrave Macmillan.

Visser, J. (2008) "Extension through Dilution? European Integration, Enlargement and Labour Institutions" Alber J., Fahey T. and Sarceno, C. eds. *Handbook of Quality of Life in the Enlarged European Union*, Routledge.

Yamada, T. (2008) *Varieties of Capitalism*, (in Japanese). Fujiwara Shoten.