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From Stages to Varieties of Capitalism: Lessons, Limits and Prospects

Summary: The basic aim of this paper is to take a tour de force in order to put the varieties of capitalism (VoC) approach in perspective and to assess its limits and further prospects. There existed before it a certain stages-of-capitalism (SoC) approach with a long history. The SoC approach developed largely under the influence of social and anthropological stage theories of progress and of Marxism. Accordingly, capitalism as a mode of production was perceived as progressing through commercial, industrial, and financial stage. In this paper, this link will be recovered for the benefit of further scholarship. We emphasize that the VoC approach, by the weight it puts on efficiency tends to rank circumstantially the variety at issue, thereby implying occasionally a desirable move towards the more efficient form. This means that the elements forming a given variety may actually be matched with the successive stages of a certain progress.

Key words: Varieties of capitalism, Stages of capitalism, Transition, Convergence, Institutionalism.

JEL: B13, B25, N0.

Over the past decade, literature on the varieties of capitalism (VoC) has proliferated rapidly after the path-breaking work of Peter Hall and David Soskice (2001). This promising approach has been deployed extensively for the study of a wide range of issues. It is all the more appealing for a comparative study of comparative efficiency. In this context, it is no coincidence that the literature has concentrated on the study of advanced capitalism pertaining to Europe and North America. Given its short span of life, it is not yet certain if the VoC approach will continue to spread in numbers as well as in geographical application. There exist two favorable circumstances for its further growth: (i) the eminence of heterodox economic approaches that see in diversity a precondition for economic evolution in the wake of the current crisis of neoliberalism *pace* globalization; (ii) the differential advent of countries that participate in the European integration where convergence and fine-tuning of economic policies take place against a backdrop of variegated institutional matrices. On the other side, the approach may well lead to a *cul-de-sac* where repeated pursuit of comparative statics may exhaust the potential of the approach.

The basic aim of this paper is to take a *tour de force* in order to put the VoC approach in perspective and to assess its limits and further prospects. In a time of profound structural change and worldwide crisis such as ours, this task becomes all the more important. There existed before the VoC approach a certain stages-of-capitalism (SoC) approach with a long history. The SoC approach developed largely under the influence of social and anthropological stage theories of progress in general and of Marxism in particular. According to the Marx-inspired SoC approach, capitalism as a mode of production was perceived as progressing through commercial, industrial, and financial stage. Whereas the last was identified as the highest stage corresponding to the eve of the First World War, the middle stage was identified with the European industrialization of the nineteenth century, and the first with the 16-18th century.

The careful reader cannot help notice the similarity in the above scheme with Werner Sombart's classification of the stages of capitalism (Werner Sombart 1929). Not only his conception of the stages of capitalism, but also his characterization of capitalism along the bipolar axis of ancient versus modern capitalism make Sombart an important milestone in the intellectual history that concerns us here. In retrospect, we insist, Historical School approaches (Keith Tribe 2002) to the periodization of economic developmental trajectories as well as to the characterization of its various stages seem to possess greater historical relevance and validity, and are therefore more conducive to contemporary theoretical improvisation and innovation than their Marxist archrival. Be that as it may, it was Marxism at large and not the Historical School that shaped the intellectual scene of the twentieth-century as a formative influence. Whereas the influence of Historical School was interrupted by the First World War and subsequently by the decline of German as an international academic language, Marxism spread far and wide and attained its peak as a formidable force on the global intellectual scene circa 1968. What concerns us here is not the intrinsic theoretical value of approaches but their *institutionalized* strength in structures of knowledge and the concomitant intellectual gravity-effect. In light of this fact, Marxism scores better than the Historical School and justifies our choice for comparison. Furthermore, we believe, the diagnosis for the specific decline and fall of the Marxian SoC approach has important lessons for the prognosis of the destiny of the currently fashionable VoC approach. Last but not least, whereas both SoC and VoC approaches restrict themselves to the characterization and periodization of capitalism per se, the Historical School identified as its subject-matter the variation of economic systems at large the scope of which covered much more than capitalism. That the VoC approach can rejuvenate itself by recourse to, and in cross fertilization with, approaches that remain heirs to the Historical School will be hinted at the end of the paper. In short, the seemingly omission of the Historical School from the following part devoted to SoC approach should not mislead the reader to overlook its relevance for the underlying argument of the paper.

As a matter of fact, the VoC approach committed to the vocabulary of "capitalism" has been erected on the foundations of, and in response to, the SoC approach even though the link seems to have been lost to many a scholar. In this paper, this link will be recovered for the benefit of further scholarship. Needless to say, even those who subscribe to the same vocabulary concerning "capitalism" differ among themselves greatly when it comes to the definition of the concept itself. On the one side there are those who see in capitalism long-lasting and almost transhistorical attributes as manifest in Max Weber's and Sombart's notions of ancient capitalism. On the other side, there are those who confine themselves to a narrower definition that overlaps with the era of modern capitalism. This latter position puts the emphasis on the industrial and labor attributes of capitalism that became overt after the Industrial Revolution as being of basic importance for the definition. The SoC and VoC approaches also belong to this second camp. For the greater part of our argument, we also adhere to this narrower definition for the sake of convenience. We thus define capitalism *pace* Ernesto Screpanti "as an economic system in which surplus value is extracted from the production process by using wage labour and is utilised in the circulation process for sustaining capital accumulation" (2001, p. 258). More summarily, "an economic system can be defined 'capitalist' if surplus value is used to sustain capital accumulation" (2001, p. 261). This definition nevertheless accommodates a Soviet type regime as also (state-) capitalist: "as far the labour utilization and the distribution-allocation subsystems are concerned, state capitalism is a fully-fledged capitalist form" (2001, p. 78). In the final part, however, we part ways with this definition because a long-term approach like the one we advocate suits better with a more encompassing definition that also brings with it a significant degree of flexibility. We have in mind not so much Weber and Sombart's almost transhistorical notion but that of Fernand Braudel which brings to the foreground the financial and monetary attributes of capitalism as having remained essentially constant since the thirteenth century; that is, also preserving the historical parameter of the definition albeit referring to a longer period of history (1984). Last but not least, we emphasize that the VoC approach, by the weight it puts on efficiency tends to rank circumstantially the variety at issue, thereby implying occasionally a desirable move towards the more efficient form. This means that the elements forming a given variety may actually be matched with the successive stages of a certain progress. It is in this sense that the two approaches are also intricately associated as being fundamentally of similar substance.

1. Stages-of-Capitalism Approach Revisited

Stages-of-capitalism approach is founded on the heritage of centuries-long refinement in post-Renaissance philosophies of history that were given a strong touch by the theories of progress characteristic of the Enlightenment. Continental philosophies circa the French Revolution were increasingly committed to the idea of social and historical progress. Scholars adhering to these theories were obliged to adopt a more scientific approach that accorded well with a history of the masses that progressed according to its own laws of motion. Because the French Revolution was identified with progress, it necessitated the characterization of the eras before and after it as "stages". The foundation was laid with Claude Henri de Rouvroy Comte de Saint-Simon and Auguste Comte's industry-based societies approach. These stages were originally far from being conceived in any relation to capitalism. If anything, social philosophers beginning with Saint-Simon and Comte were attracted to the idea of an industrial process associated with rapid growth of output and productivity and explored whether the progress under way could be given a further impetus for the better by human design. Comte, like his mentor Saint-Simon, tried to combine scientific practice and philosophy with the individualistic analysis of society. He tried to come up with a solution to the tribulations of French society after the Revolution of 1789 that destroyed traditional sources of authority. According to Comte, France had passed the theological phase of law of three stages and was then in the metaphysical phase; a period when the investigation of the nature of the universe reigned supreme. This stage was characterized by the inevitable questioning of religion and authority. Once accomplished, French society would pass to the positive phase that would be fully scientific. Saint-Simon and Comte also investigated the industrial system and explored the phenomenon of productivity increase in the factory system with their main work, *Du systeme industriel* (1820). They claimed that production and distribution should be subject to central planning that could be extended to the entire society. The next stage should be an industrial society in which even politics should be conceived as a science of production (Tribe 2008). The foundation laid by Saint-Simon and Comte was further developed by Karl Marx. His version elaborated a production-and-distribution analysis of the economy that shaped society in turn. Once society was conceived as an effect of production at large, Marx could easily take the further step by deploying the concept of "mode of production" as a combination of the forces and relations of production as the foundational matrix of society.

With the magic touch of Marx and the advent of Marxism in the twentieth century, SoC approach came to dominate the scene at the expense of other rival stage theories. This was especially so after the cultural revolt of 1968 that brought fresh air to the social sciences and humanities. Otherwise, if we take into consideration the ontological foundations and properties, SoC approach remains to this day a subset of the stage theories of social and historical progress. Though being the exception to the rule, SoC approach has had a brief but influential career with a lasting influence on the social sciences. This is why we find it worthy of a revisit with an eye to lessons that can be drawn from its rise and demise.

Marx was first and foremost interested in the study of what later came to be known as capitalism. In order to understand capitalism better, he delved into its origins and thereby hit upon the pre-capitalist modes of production. From his work emerges a list of modes of production such as primitive communism, slavery, feudalism, capitalism, socialism, communism; and the most controversial Asiatic modes of production. The concept of "Asiatic mode of production" was based on a specific interpretation of the facts of Chinese and Indian history. Its difference from the feudal mode of production is due to absence of private property and the likely presence of a strong, in fact, allegedly despotic state. Whether Chinese and Indian economies ought to be identified as "feudal" or "Asiatic" has remained a contended issue further politicized by the advent of real socialism (Lawrance Krader 1975; Barry Hindess and Paul Q. Hirst 1977). The ordering among the pre-capitalist modes also remains ambiguous and debatable. Among all, feudalism remains the best studied mode of production. It is no surprise that feudalism is also periodized from within: "it is periodized into successive stages according to increasing privatization of the form taken by the relations of production(toward private property) and the increased socialization of the form taken by distribution (commodity exchange)" (Ben Fine and

Laurance Harris 1979, p. 109). These are *labor rent*, *rent in kind*, and *money rent* stages. This periodization is based on the legalization of the rent in question. With the advent of money rent; the spread of market came to affect economic relations irreversibly. Marx was interested in the nature of the transition from feudalism to capitalism and from capitalism to socialism. Whereas Marx had a notion of distinct stages that correlated with successive modes of production, Marxists elaborated the idea of stages *within* the specific modes of production. Nikolai Bukharin (1979) and Vladimir I. Lenin (1996) form only partial and halfhearted exceptions to this trend as they confronted problems of economic policy-making in postrevolutionary Russia. Realities of the backward and war-ridden country forced themselves upon the minds of these Bolsheviks. Bukharin in his study of the transition period was forced to acknowledge the "diversity of economic structures" (1979, p. 113) prevalent in the Russian countryside: "What we have here is a group of low and low-to-middle elements in the labour hierarchy, which has no place in a purely capitalist set-up and does not represent socialized labour, but is, so to speak, an appendage. Nevertheless, its importance is quite considerable, when we examine the social system in its entirety" (1979, p. 114). As far as the kulaks and self-interested peasants were concerned, coercion was "an absolute categorical imperative" (1979, p. 165) for the resolution of this "transitional" problem of unwonted variety. In a similar vein, Lenin's New Economic Policy recognized variety of forms from the vantage point of practical policy exigencies (Edward H. Carr 1950). If anything, among the Russian scholars, Alexander V. Chayanov (1986) remains as a towering figure as he saw the true difference of the peasant farm as an economic form with its distinct rationality that was likely to persist in the long run.

In defiance of Marx's own expectations, as capitalism metamorphosed and matured well into the twentieth century, Marxists were forced to adopt a narrower focus and concentrate further on its internal periodization. Among the many such periodizations, we can remind ourselves of: (1) Rudolph Hilferding's (1977) stages of free trade, monopoly and finance capitalism; (2) in contradistinction, the more political formulation in terms of early capitalism, colonialism and imperialism by Lenin (1996) and John A. Hobson (1965) need to be noted; (3) Paul Sweezy's (1970) stages of early capitalism "competitive capitalism", "monopoly capitalism" and "state monopoly capitalism". In a similar vein, Fine and Harris (1979) list laissez-faire, monopoly and state monopoly capitalism. There exist numerous further variations to this theme. Call them what you will, the mapping of stages to chronological history reveals that they more or less overlap. The first stage is generally dated as between the 16th and 18th century of European history. It is the stage of primitive or commercial capitalism. By the increase of the division of labor, productivity increased and so did production and surplus. It was however in the next stage called industrial capitalism, coincident with the first three quarters of the nineteenth century, that machines would start to replace workers in the factories while labor-markets were constituted in an ever growing scale. As of the last quarter of the nineteenth century, monopolistic or oligopolistic firms spread under the encouragement of the state in both the national and the international arenas. Material expansion of the industrial phase was ultimately followed by a financial expansion as of the turn of the century lasting until the First World War known as the Belle Époque (Giovanni Arrighi 1996).

Whereas production is space-specific, finance is the opposite, it is flow-specific (John G. Ruggie 1993). Given this sharp contrast, industrial capitalism was conceived vis-à-vis the territoriality of the nation-state and financial capitalism has been conceptualized as essentially disrespectful of national boundaries, that is, as potentially globalizing. This enlargement of the field-of-vision requires a new conception of stages with an acute awareness of their worldwide significance. A theory derived from the European experience thus comes to be reworked with reference to the world at large. Most important is the status of the rest of the world as "developing" or "underdeveloped" in this context. Marxists committed strongly to the stages-approach argued that the Third World countries had to follow the same stages in order to reach socialism in the end. Against the above backdrop two debates of broader relevance developed. The first concerned the question of whether or not capitalism was essential en route from pre-capitalism to socialism. More specifically this meant if industrial capitalism could be skipped as a stage. As far as definition is concerned, if a stage can be skipped, it can no longer be conceived as a stage, as it is redundant. The second question concerned the nature of transition. Does transition from one stage to the next come about as a result of internal dynamics or is it initiated by external factors? The two questions are obviously linked in one sense. The more each stage is defined as "essential" the less likely that it would generate on its own a transition from within. With specific reference to the less-developed countries this would mean if interaction with a developed country was beneficial or harmful. Ultimately, concepts such as "dependent development" elaborated in conjunction with Brazil assume a beneficial contact with international capital (Peter Evans 1979).

As more elaborated modes of production became less receptive to an internal dynamics, the concept of "social formation" as consisting of the articulation of two or more modes of production was elaborated. As such, social formations bore the responsibility for accounting for transitions where the mode of production failed. This has one further theoretical implication. Stages are no longer conceived as successive as would befit their definition, but as coexistent. If modes of production coexist in a social formation, then they cannot be seen as necessary stages. It is no coincidence that historicism yields to structuralism with the popularity of the idea of social formations as the building blocks of large-scale, long-term analysis. There exists yet the possibility on another inference. If some modes of production exist side by side, then we can speak not of a uniformity and singularity, but *variety* of modes of production at any given point in time. Hereby variety is recognized.

Within the international arena, Third World countries attracted much attention in the postwar period. International bipolarity encouraged both the First and the Second World to compete for influence over the Third World. This competition stimulated an academic interest in the economic development of postcolonial countries. Walt Whitman Rostow's five staged take-off model, tailored as the antithesis of the *Communist Manifesto* as obvious from its subtitle, thus became the mainstream classic in this field. The stages begin with traditional society with a ceiling in agriculture based non-scientific production, and reach to the high mass-consumption stage that the societies allocate the increased resources to social welfare and security. Of critical importance are the preconditions of the take-off. According to Walt W. Rostow (1960), the more general case displays the symptoms of an exogenous shock originating from contact with a developed country. This type of an exogenous shock cultivated the seeds of change in the realm of ideas as well as destroying the traditional ways of life, thereby laying the foundations for a modern alternative. Rostow gives each stage a duration characterized by investments and growth-rates that need to be achieved. It should be noted that industrial production and not finance is the main concern in the characterization of these stages. Finally, maturity equated with a modern technological welfare state will ultimately be attained after a period of fifty to hundred years.

Rostow's work paved the way for further elaboration of stage theories the scope of which was not restricted to the Third World per se. Among these we identify Fritz Machlup's (1962) work based on information concentrated on production; Daniel Bell's (1973) post industrial society concept and James R. Benniger's (1986) information society. Finally, with the development of trade, advertisement and communication on the internet, Manuel Castell's (1996) network society specified the next step of these stage analyses. These approaches are based on a common set of assumptions. Today, industrial production is spread over the greater part of the world and no longer serves to demarcate the developed few. In its place, concern with information serves this purpose. The West now produces mainly the information which is more skill-based. This is reflected at the R&D expenditures, patents and innovations. Now the assembly-line segment is the easiest and less profitable part in contrast with the designing, advertisement and marketing segments of the economic process. Also the web and the software segment is the most intriguing and continuously expanding sector which has nearly no need of physical investment except that of a single computer, yet bring super profits in the short run. Considering these, scholars suppose that the next stage will be the information age, where people will not produce commodities but information.

For such stage theories, dating the transitions become the most controversial issue. At a national level, validation of the periodization is always possible with plausible justification. By the date of an event, by a revolution, by an invention or by a legal act, the stages can be initiated. Since we are concerned here with an *ex post* specification, transition becomes a nonissue since it is impossible to claim that it did not happen. However, when we attempt to formulate a general theory of economic development by starting with an exemplary case, predictions for future cases can be misleading.

The so-called Dobb-Sweezy Debate is the penultimate case in the broader transition debates. It teaches us more with its shortcomings than with what it has actually accomplished. Its objective has been to account for the transition from feudalism to capitalism. On the one side there is Maurice Dobb (1978) working with the "mode of production" concept with his focus on English history. On the other side, there is Sweezy (1970) who pays greater tribute to the broader context of Europe with a depth of focus that takes historical factors into account. Sweezy emphasizes external factors such as long-distance trade that helped dissolve feudalism by its impact through the towns on the countryside *pace* Henri Pirenne, whereas Dobb dwells on internal factors to do with agrarian capitalism as later picked up by the subsequent Brenner Debate (Trevor H. Aston and Charles Philpin 1987). Internal factors are internal to the national mode of production as a unit of analysis. External factors are external with respect to the same. However, they can well be internal to a different, more encompassing unit of analysis such as a world-system. Dobb (1978) acknowledged that Italy and Eastern Europe still remained a problem for the debates on transition just as Maurice Aymard (1982) described Italy as the case that did not fit insofar as it hosted all the prerequisites yet failed to accomplish the transition. The implication is clear. Perhaps we should be concerned not with a transition from one mode of production to another at the national scale but with a different systemic genesis of capitalism as a world-system as envisaged by Immanuel Wallerstein (1974).

Let us recall at this point that the ancestor of world-systems analysis had been the Latin American Dependency School. Dependency theorists argue that there should be another—than mainstream modernization—explanation of the economic development of the periphery. Accordingly, development in the periphery is structurally limited and distorted. In fact, one can speak of the development of underdevelopment vis-à-vis the periphery as the counterpart of the development experienced in the core. This is so because there is always expropriation of the surplus by way of unequal exchange between the core and periphery. According to André G. Frank (1969), there is a single historical and structural process operating on a world scale that produces both economic development and structural underdevelopment as two sides of the same coin.

According to the Dependency approach, contemporary underdeveloped countries are not at a stage that developed countries already went through. Their underdevelopment is not the result of their natural autonomous growth, but the effect of their contact with developed countries. What is at issue here is more than an initial contact; in fact, a process of inscription into a division of labor that operates at a world-scale. Moreover, by proceeding further along that path, they increase their dependency on the developed countries, thereby deepening their process of underdevelopment. Dependency theory and its offshoot world-systems analysis thus reject the linear, staged development. They see peripheral development as an oxymoron within the context of the world-system. On the other side, among those who do not necessarily contest altogether the stages-approach, there exist a debate over the nature and limits of replicating at present the past developmental experience of advanced countries. All this amounts to saying that peripheral capitalism is essentially, that is, structurally different. Some argue that, by recourse to right policies, it can be transformed into core capitalism while others insist this is impossible. Thus, varieties-of-capitalism approach was first born in this context. At that time, only two options existed and debate ensued as to whether the peripheral one would be merely transitional or not. We can rephrase this issue in retrospect as to whether peripheral capitalism was flexible enough to become normal capitalism identified with the core.

There had existed for long another criticism of the uniformity-of- capitalism approach from within Marxism. We have in mind here Rosa Luxemburg (1951). She argued that capital accumulation in a closed system is not feasible. She thus defected from both orthodox Marxist and mainstream commitments to a closed-system analysis. She insisted that capitalism required for its expanded reproduction the presence of non-capitalist elements as potential consumers. Implicit in this formulation is the conception of a composite economic system greater and more variegated than capitalism itself as its *Lebensraum*. For capitalism to survive, it was thus necessary that a country [or the world at large] remains either totally or in part untouched by the capitalist system (Sweezy 1970). Once all such entities are inevitably absorbed by the system, the impossibility of further capital accumulation will be faced. The result is that if every part of the world with their entire population were absorbed into the capitalist system, the whole system will be capitalist and closed and would thereby collapse. Put differently, capitalism cannot exist in purity. It needs variety of economic systems in its neighborhood to survive. Capitalism thus has to be *embedded* in economic variety. This is indeed a strong argument in favor of variety.

2. Varieties-of-Capitalism Approach Visited

Varieties-of-capitalism approach emerged with the publication of *Varieties of Capitalism: The Institutional Foundations of Comparative Advantage* by Hall and Soskice (2001). The book stirred much controversy, exerted influence on the literature and resulted in a debate. Thus we will dwell on this work because of its foundational importance. This approach together with the ensuing debate is still less than a decade old and remains at a most dynamic phase. Nevertheless, main attributes of the VoC stance have crystallized sufficiently to qualify for a critical assessment. The Introduction to this groundbreaking text states that the approach is "seen as an effort to go beyond the three perspectives on institutional variation that have dominated the study of comparative capitalism in the preceding thirty years", namely, *modernization approach*, *neo-corporatism*, and *social systems of production* (Hall and Soskice 2001, p. 2). Accordingly, modernization approach tended to overstate what governments can accomplish; neo-corporatism mostly focused on trade union movement and overlooked the importance of firms in political economy; and despite the recognition of the role of regional and sectoral institutions on firm behavior, social systems of production approach has not analyzed variations across national political economies. Moreover, in each of these perspectives the elaboration of institutions, especially their effects on behavior, has remained rather limited, and these approaches have failed to capture *strategic interactions* which are vital for economic and political outcomes. It is precisely at this juncture that the co-authors part ways "most fundamentally from these approaches" and opt instead to an analysis akin to that of Masahiko Aoki (1994), especially with an emphasis on "institutional complementarities" (Hall and Soskice 2001).

VoC is a firm-centered approach to political economy—as firms are seen as "the key agents of adjustment in the face of technological change or international competition whose activities aggregate into overall levels of economic performance" (Hall and Soskice 2001, p. 6). The main objective of firms is to attain *core competencies* or *dynamic capabilities* to develop, produce, and distribute goods and services profitably. The co-authors see firm as an institution-taker in general *pace* Douglas North, and strategy follows from institutions. Thereafter, the key relationships in political economy are interpreted in game-theoretic terms. VoC approach states that firms engage in *strategic interactions* to reduce their coordination problems in the economy. Five main categories are picked up as the domain of such problems. These are *industrial relations*, *vocational training and education*, *corporate governance*, *inter-firm relations*, and *employees*. Thereafter, the approach insists, "national political economies can be compared by reference to the way in which firms resolve the coordination problems they face in these five spheres" (Hall and Soskice 2001, p. 8). As Matthew Watson (2003) mentions, this approach "offers much in its ability to move us beyond the tendential reification of 'the international' as a discrete spatial scale of economic activity" and "reminds us that there are particular geographies of production and consumption, which represent embodied networks of economic activity that are limited both socially and spatially" (p. 228). As a result of the varieties in institutional context across countries; that is, the role of culture, informal rules, and history; combined with the effects of *institutional complementarities*, we are faced with *varieties of capitalism* instead of witnessing *one-type-of-capitalism* to which all of the developed nations must conveniently fit.

But what exactly is the variety that is being covered by this approach? Although the VoC stance is ambitious enough to cover also the developing nations, it is limited to the developed ones in Hall and Soskice (2001) as it is admitted: "we know them best and think the framework applies well to many problems there" (p. 2). Having thus practically restricted their scope, the co-authors identify two core types of political economy that are liberal market economies (LMEs) and coordinated market economies (CMEs). These "constitute ideal types at the poles of a spectrum along which many nations can be arrayed" (Hall and Soskice 2001, p. 8) (see, for example Alexander Börsch 2007). By examining the large OECD countries, the writers classify the USA (analyzed as a case study), Britain, Australia, Canada, New Zealand, and Ireland as LMEs; and Germany (analyzed as a case study), Japan, Switzerland, the Netherlands, Belgium, Sweden, Norway, Denmark, Finland, and Austria as CMEs. Although France, Italy, Spain, Portugal, Greece, and Turkey have ambiguous positions, referring to Martin Rhodes (1997), the writers claim some signs of institutional clustering is witnessed in these countries which may justify grouping them under the label of "Mediterranean type of capitalism" (Hall and Soskice 2001).

Be that as it may, let us briefly identify the major characteristics of LMEs and CMEs. In LMEs, firms generally solve their coordination problems by relying on a mix of hierarchies and competitive market arrangements. Neoclassical economics has explanatory power when applied to LMEs (Hall and Soskice 2001). In CMEs, on the other hand, firms generally solve their coordination problems by relying on non-market modes of coordination such as relational or incomplete contracting and greater recourse to collaborative relationships. This specification implies that strategic interactions among firms dominate in CMEs and neoclassical economics is insufficient for understanding them. What is needed instead is a combination of game theory and new institutional economics.

Having subscribed to the core arguments and principles outlined in Hall and Soskice (2001), a number of scholars tried to expand the empirical focus of the VoC approach. Some focused on the trajectory of the post-communist countries of East

Central Europe (Iain McMenamin 2004; Stephen Crowley 2005; Magnusn Feldmann 2006; Buchen Clemens 2007; Lawrance P. King 2007; Lenka Klimplová 2007; Mark Knell and Martin Srholec 2007; Andreas Nölke and Arjan Vliegenthart 2009), some focused on the Latin American countries (Benr R. Schneider 2009) and yet some others focused on the political economies of Asia (Joachim Ahrens and Patrick Jünemann 2007; Siri Terjesen and Jolanda Hessels 2009). Among these studies some readily accepted the fact that the basic dichotomy between LMEs and CMEs is enough to analyze and categorize the political economies in the related geography; albeit with occasional refinements as in the case of King (2007) who then re-labels the dichotomy as "Liberal Dependent Capitalism" and "Patrimonial Capitalism". However, besides appreciating the usefulness of it, some others insisted on the inclusion of additional core types to the framework as to effectively elaborate the unique characteristics of the non-developed political economies. As such, Nölke and Vliegenthart (2009) suggest "dependent market economy" as a third type of variety to incorporate East European political economies to the framework and Schneider (2009) constructs a "hierarchical market economy" to elaborate the distinct Latin American variety of capitalism. A number of scholars opposed to the binary classification of LMEs and CMEs in order to extend the scope of the VoC approach. For instance, Bruno Amable (2003) identifies five types of capitalism by incorporating state and politics into the picture, and Robert Boyer (2005) suggests at least four types of capitalism by focusing on the crucial differences between the VoC approach and regulation theory. These works modify the core arguments of the approach which is beyond the scope of this article.

If we are to turn our attention back to the original conception Hall and Soskice (2001), that characterized the forms of variety along a bipolar axis and having distinguished between LMEs and CMEs, an important question arises for us: Is one (or are some) form(s) superior to the other(s)? There are two ways to approach this question. First, the pure types can be compared to each other without focusing on hybrids and the question becomes: Are LMEs or CMEs superior? Second, pure types and hybrids can be compared to each other. The question then becomes: Are the pure types or hybrids superior?

To elaborate the answer that the VoC approach provides for these two questions we should first define and underline the importance of the concept of *institutional complementarities*. As defined in Hall and Soskice (2001) "two institutions can said to be complementary if the presence (efficiency) of one increases the returns from (or efficiency of) the other" (p. 17). For instance, where systems of corporate governance encourage firms to coordinate and collaborate their activities in spheres of network monitoring, wage setting, and inter-firm relations in research and development; high levels of product-market regulation may be complementary as it avoids fierce competition in product markets not to harm coordination and collaboration in these spheres (Soskice 1999); or where financial markets are fluid, policies concerning deregulation of labor markets may be complementary and may result in substantial economic gains (Hall and Daniel W. Gingerich 2009, p. 480). The implication is, the more successful a political economy is in establishing institutional complementarities throughout the economy, the more likely that its firms will benefit most from the smoothly functioning institutional framework. The result is more satisfactory long-run economic performance. Thus, relying on the concept of institutional complementarities, VoC approach evaluates and determines the superiority of the pure types over hybrids by recourse to the role of coherence and consistency among the constituent elements.

Having relied on the concept of institutional complementarities, Hall and Soskice (2001) respond to the first question: "although each type of capitalism has its partisans, we are not arguing. . . that one is superior to other" as "both liberal and coordinated market economies seem capable of providing satisfactory levels of long-run economic performance" (p. 21). In other words, both pure types have competence to build up successful institutional complementarities throughout the political economy that they can both deliver satisfactory levels of long-run economic performance. However, depending on the distinguishing characteristics of their institutional frameworks, the two types provide different degrees of success with respect to several criteria.

First, CMEs tend to be more successful in providing *incremental innovation* (continuous but small-scale improvements to existing product lines and production processes); whereas LMEs tend to be more successful in providing *radical innovation* (substantial shifts in production lines, the development of entirely new goods, or major changes to the production process). Second, CMEs are likely to be more successful in providing high levels of *quality control*; which gives its firms advantages over products for which demand is more sensitive to quality rather than price; whereas, LMEs are likely to have advantages in products for which demand is highly price-sensitive. Third, as far as the speed of technology diffusion isconcerned, LMEs should be quicker than CMEs. Fourth, CMEs are likely to have lower levels of income inequality than LMEs and likely to be more successful in providing high skill, high wage, and high productivity employment (Hall and Soskice 2001).

In terms of the second question, concerning the relative superiority of pure types and hybrids, as the pure types are more successful in providing a coherent institutional setup to their firms, implying that they are capable of exploiting the highest returns from institutional complementarities, "aggregate economic performance should be better in nations whose institutionalized practices correspond more closely to relatively pure types of LMEs or CMEs i.e., in nations where market or strategic coordination is highly developed in multiple spheres of the political economy" (Hall and Gingerich 2009, p. 470). Thus, having made this suggestion, the approach automatically implies that for hybrids, the pure types should be the ideal targets. Although not examined by Hall and Soskice, some scholars who adhere to VoC approach argue that a "dual convergence" is on the agenda, meaning that "convergence takes place within clusters but not between them" (Chris Howell 2003).

The convergence/transition debate discussed in Hall and Soskice (2001) reflects one of the most crucial points where the VoC stance differentiates itself from the mainstream orthodoxy and puts forward its core arguments. It would have been better if the authors crystallized their position in accordance with the lessons of the broader convergence literature that distinguishes among "absolute", "conditional" and even "club" convergence. The latter two cases are all the more relevant for the authors' purpose as they take initial conditions including culture, institutions, and geographical position into account. Whereas the "conditional convergence" hypothesis claims that given common structural characteristics, a convergence will take place in the long run independently of initial conditions, "club convergence" hypothesis expects this to happen only if the initial conditions are similar as well (Oded Galor 1996). Differentiation of the rival positions along these lines would have made this debate more productive. Be that as it may, mainstream orthodoxy, mainly relying on the tools of neo-classical economics, constructs an "ideal type", a "best practice" which represents the only natural and rational outcome of the organization of an economy. All political economies other than the "best practice" are expected to converge to it, unless there exist irrational external forces. This "best practice" is akin to the LME of the VoC approach and the result is a certain predetermined unity instead of variety. The VoC framework directly opposes to the idea of "best practice" and the corresponding convergence argument. As stated, the approach constructs a second pure type (CME) that can provide satisfactory levels of long-run economic performance like its LME counterpart by establishing a coherent institutional framework with its own "rules of the game" and rationality. Thus, efficiency considerations do not imply the convergence of CMEs to LMEs. To put forward and justify their arguments, Hall and Soskice (2001) elaborate the convergence debate of CMEs to LMEs in a detailed way by examining the catalysts and impediments of it. They first introduce the arguments of the mainstream orthodoxy favoring convergence; then, they construct their own arguments.

The first and foremost catalyst of the convergence of CMEs to LMEs is the pressure of globalization and the argument evolves around three suggestions (Hall and Soskice 2001). First, in terms of basic structure and strategy, firms are seen as very similar across nations implying that regardless of the national political economies in which they operate, firms will react very similarly to the same external shocks and disturbances. Second, the competitiveness of firms are measured relying on their labor costs, thus, if firms get a chance to reduce the costs by shifting their production abroad, they will take it. Third, as international interdependence will favor capital as it has more exit opportunities than labor; governments will implement several "firm-friendly" policies in order not to undermine production and overall economic activity. In short, governments will behave in line with the requirements of globalization.

The second catalyst which is directly related with the first one is the altered structure of the market for corporate governance caused by globalization (Hall and Soskice 2001). In an environment where internalization of finance takes place—there is a substantial increase in the international flows of capital both in terms of direct and portfolio investment—firms of CMEs need to restructure their traditional practices in order to attract foreign investors and to increase their shares in the world market. In line with the demands of these investors such as the opportunity to monitor the progress of a company closely, insistence on a transparent balance-sheet criteria, or to have a chance to engage in merger or acquisition activity like in LMEs, firms of CMEs will have to take reactive steps to *resemble* their LMEs counterparts, such as revising their accounting standards or appointing independent directors.

More importantly, as a direct implication of this kind of resemblance, firms of CMEs will have to consider the rate of return of their capital or their share price; a factor not much considered previously. Keeping in mind the argument of institutional complementarities, these developments may alter the other relevant institutions across the political economy and the disturbance may eventually lead to further convergence. For instance, referring to Aoki (1994), Hall and Soskice (2001) argue, "if the financial markets of a CME are deregulated . . . it may become more difficult for firms to offer long-term employment. That could make it harder for them to recruit skilled labor or sustain worker loyalty, ultimately inspiring major changes in production regimes" (p. 64).

The counterarguments of Hall and Soskice (2001) developed against the convergence scenario help us identify the core elements of the impediments to transition. First, the suggestion that firms across nations are similar is inadequate. Relying on the distinguished institutional characteristics of LMEs and CMEs, firms of each type will engage in different strategic interactions as to benefit most from the institutions they face and the result will accordingly be "firms in different types of economies react differently to similar changes" (Hall and Soskice 2001, p. 56, by referring to Michael Knetter 1989). Second, although low labor-costs are always attractive to firms, it does not necessarily result in the relocation of their production abroad, as what is more important than low costs of labor is the favorability of the institutional setup. In short, the existing institutional structure of CMEs is the most important impediment to convergence towards LMEs. Faced with the pressures of globalization, either pure type will tend to develop different policies in order not to damage the coherence of its own institutional framework, by relying on which, their firms organize their activities in turn (Hall and Soskice 2001) (see, for example Hall 2007).

In terms of the transition of hybrids to the pure types, Hall and Soskice put pure types as targets due to efficiency concerns as we have stated. However, we know all too well that efficiency considerations as such do not automatically generate institutional change. Referring to Kathleen Thelen (2001), Hall and Soskice (2003) admit that "although efficiency considerations. . . are relevant to institutional change, the latter is ultimately political process driven by many factors and must be analyzed as such" (p. 245). Thus, it is fair to suggest that while mainstream economics claims the existence of a "best practice" to which all of the political economies tend to converge, the VoC approach emphasizes the existence of two "best practices" (LME and CME) to which hybrids tend to converge when liberated from the pressure of political process. Consequently, the aim of the VoC stance is to provide a theoretical basis to explain the *dualist* nature of capitalism implying the shift from unity to variety.

However, a closer investigation may undermine the very duality that the VoC stance aims to end up with. Having elaborated and in turn appreciated variety relying on efficiency considerations, the approach introduces LMEs and CMEs as a terminus for all political economies. The former, which corresponds to the "best practice" of the mainstream economics, has a solid theoretical and practical background. Its definition, identification and elaboration are crystal clear. The latter, on the other hand, seems to be ambiguous as it excessively relies on the "historically-specific" German case for its characterization. If only the Iron Curtain had contained not part but the whole of Germany, France would have been taken up as the model for CME. With the Eastern European countries now being incorporated into the domain of discussion, the model-case may have to shift. Consequently, the attempt of making a generalization with special reference to this unique circumstance to construct a pure type is far from satisfactory. On the one end is a stable equilibrium and on the other an unstable one defined by accidental circumstances and merely statistical properties. This is indeed an *asymmetric* formulation as far as the two endpoints are concerned. From our perspective, the main problem lies in the way that variety is treated in the VoC approach; a treatment that solely depends on efficiency considerations and does not genuinely appreciate variety itself.

Several scholars of the VoC approach have also questioned the stability of the pure types they constructed and came up with similar inferences. For instance, concerning the "hierarchical market economies" built up to explain the distinctive characteristics of the Latin American variety of capitalism, Schneider (2009) admits "some recent developments in Latin America—growing stock markets, for example—may gradually displace more hierarchical corporate governance" (p. 571) by altering the very foundations of this variety; and concerning the "dependent market economies" constructed to explain the third type of East and Central European political economies, Nölke and Vliegenthart (2009) admit "it is perhaps still too early to judge the long-term stability of this variety and its ability to provide an equal alternative to CMEs and LMEs" (p. 676).

If we are to further our discussion of the transition debate,—setting aside those who suggest a third variety to capture the specific characteristics of the non-developed political economies (Nölke and Vliegenthart 2009; Schneider 2009) - the VoC scholars provide contradictory conclusions concerning the transition of hybrids to the pure types. Especially, the political economies of East and Central Europe attracted much attention in the literature as they constitute stirring "large scale experiments" (Feldmann 2007, p. 328) to test and expand the empirical focus of the approach due to their highly comparable historical backgrounds and concurrent transition experiences. A part of these studies suggested the transition of East and Central European countries to LMEs (Crowley 2005), another part to CMEs (McMenamin 2004), and yet another part to none as these countries are regarded as stable hybrids or their transition path is described as being unclear (Klimplová 2007). One might blame the "premature, mechanistic preference for quantitative approaches" in the occurrence of this contradictory picture as "many studies simply take the basic characterization of the two dominant models of political economy (CME and LME) as a given and apply their conventional categories to the economies of ECE (East Central Europe)" without considering the fact that "statistical correlations as such do not necessarily imply causal interrelationships between the institutional elements involved" (Nölke and Vliegenthart 2009, p. 672). Moreover, the reduction of the five-sphere focus of the VoC stance to only one "may also lead to problematic conclusions because a narrow focus does not allow for an identification of the quintessential interdependencies between different institutions within one capitalist model" (Nölke and Vliegenthart 2009, p. 672). From our perspective this suggestion is incomplete if not inadequate. As will be claimed, the same preference for quantitative approaches coupled with the *quest for efficiency* not only results in contradictory conclusions in terms of the transition debate; but also introduces more serious problems concerning the entire understanding and conceptualization of the VoC approach.

Having thus discussed the transition/convergence debate of the various types, we ought now to address the ultimate question of whether variety is truly seen as desirable by the VoC approach. In light of our reading of the literature, notwithstanding the basic two pure types, variety is not really *desirable* in the VoC approach, in the sense that hybrids are not seen as efficient as their pure counterparts. To be sure, for an approach which attributes institutions a crucial role in its analysis but defines them in a narrow sense and takes them into account only when they alter the "rules of the game" and affect the "rational" behavior of firms in game-theoretic terms, efficiency considerations are all important. As we stated, the major obstacle for the transition from hybrids to the pure types is attributed to political factors (Hall and Soskice 2003). Thus, if only economists had a chance to remove these obstacles in order to benefit most from the fruits of efficiency, they would certainly do that. Moreover, not surprisingly, we have not so far come across a single statement in the existing VoC literature that genuinely *appreciates* the existence of variety. As stated by Hall and Soskice (2003), the VoC approach is not interested in explaining the origins of institutions and institution-building is seen by the co-authors as an essentially *political* project.

The VoC approach suffers from a number of additional inherent weaknesses. It focuses only on the postwar experience of the developed First World nations. By so doing, it takes capitalism as given. Within such a limited domain, when the rules of rationality and efficiency are set in motion as the determinant of outcomes, then the *value* and *desirability* of variety inevitably vanishes from the scene. This is not the only criticism to which the VoC approach is subjected. For instance, Howell (2003) emphasizes the underrated role of state and labor in political economy; Amable (2003) points out the deficiencies of the one-dimensional focus—that that is, coordination - of the approach; Boyer (2005) stresses the importance of the "primacy of systemic and macroeconomic coherence" over "private firm governance"; Watson (2003) criticizes the application of Ricardian themes to the analyses; and Pernilla S. Rafiqui (2010) argues the approach should also consider variety *within* nations in line with the suggestions of economic geography. Besides such other lesser reasons, this is why we need a more comprehensive approach in its place. An approach that has explanatory power when types of economic systems other than capitalism are also taken into consideration has much more to offer us especially when the time horizon in extended. When liberated from the "divine" conceptions of rationality and efficiency, such an approach will also enlarge the role attributed to institutions. We ought to be more concerned about varieties of economic systems instead of varieties of capitalism in order to improve our understanding of the *institutional* nature of political economic change.

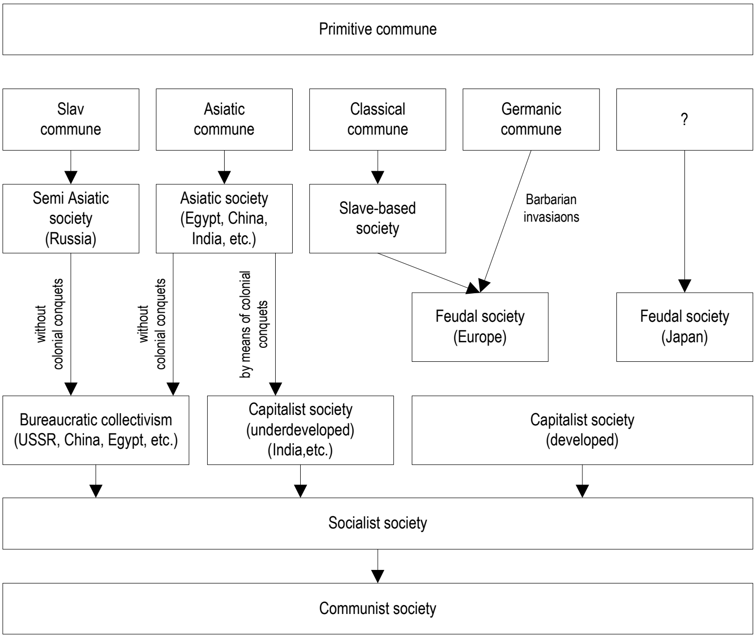
3. Lessons and Prospects

The better examples of the critique of SoC approach are found in the now-classic works of Karl Polanyi (1944), Alexander Gerschenkron (1962), Wallerstein (1974) and Fernand (1982) which inspire our position below.

The first blow to SoC approach came from within academic economic history when Gerschenkron parted ways with the dominant view that envisaged only one type of economic development: "it is fair to say that for Rostow, as for List and Schmoller, there is only one type of economic development" (1968, p. 79). Marx was also in the same camp as were his disciples as they subscribed to "the grand Marxian generalization according to which it is the history of advanced or established industrial countries which traces out the road of development for the more backward countries" (Gerschenkron 1962, p. 6). Gerchenkron distanced himself from this position by underlining the fact that "in several important respects the development of a backward country may, by the very virtue of its backwardness, tend to differ fundamentally from that of an advanced country" (1962, p. 7). When Gerschenkron probed deeper than his Marxist rivals into the specificities of European ("capitalist") industrialization in the nineteenth century, he discovered that different forms of industrialization tracing distinct paths that culminated in different economic structures coexisted. In order to achieve industrialization, those who come late could innovatively substitute for the missing preconditions by the application of "institutional instruments", thereby benefitting from the so-called latecomer's advantage in order to succeed in their pursuit. As he put it: "economic life is pregnant with many alternative solutions, so that in countries where the so-called prerequisites were not present, various substitutions for them have been developed in the very course of industrial development" (1968, p. 132). In fact, "the preindustrial landscape of backward countries was rather barren, and the history of their industrializations much more complex and variegated, precisely because it was shot through and dominated by substitutions of many kinds" (1968, p. 136). Implicit in Gerschenkron's recognition of the possibility of such a substitution is that there exists a certain flexibility of economic structures, or more specifically "productive and organizational structures of industry" concerned (1962, p. 7). Moreover, while most of these alternative forms succeeded in achieving industrialization, the resulting economic structures were not the same; hence industrial variety was not transitional but lasting. The second blow was the scholarly discovery of a "Financial Revolution" on the eve of British industrialization that disrupted the expected sequence of progress (Braudel 1984). The third blow was due to the recognition of the actually "industrial" and "capitalist" nature of plantation economies that characterized the first stage that was allegedly commercial. As Braudel (1982) put it, plantations were "capitalist creations *par excellence*" (p. 272). It is no coincidence that developments in economic history mobilized a theoretical revisionism against the SoC approach.

Instead of facing these challenges head on, how the SoC approach chose to undermine itself by way of further sophistication-cum-obfuscation, thereby cultivating a heresy is best caricatured unintentionally in Melotti's long-forgotten book, *Marx and the Third World* (1977) that depicted graphically the labyrinthine paths of transition allegedly wide open to a social formation.

Had it not been for the recognition of the world-systemic nature of capitalism *pace* Wallerstein, we would have been lost in the above labyrinth. Fortunately, we should remind ourselves that the SoC approach, as it spread in scale and scope, had



Source: Umberto Melotti (1977, p. 26).

already attained a global character via the dependency approach. As history moved ahead, so did the scale and scope of capitalism, so as to impose a certain uniformity on the world. This most mature form nevertheless moved beyond the original uniformity and emphasized instead a duality counterpoising core and periphery. Already at this point, (a two-element) variety was rediscovered after a long route. As a matter of fact, the idea of a variety as a condition of existence for capitalism was already contained in Luxemburg's nonmainstream Marxism. In retrospect, we identify that the interaction of the capitalist and non-capitalist elements as complementary of one another in Luxemburg's approach contain the seeds of the "institutional complementarity" so dear to advocates of the VoC approach; a theme to which we will return at the very end of this paper. In short, SoC started from the premise of a uniform notion of capitalism only to discover by default that this was not so. The further enrichment of this variety had to await the VoC approach. As focus shifted from the whole to its increasingly minute parts, variety proliferated albeit for a limited time, because of the eventual convergence expectations. Yet this came at a heavy price; that is, the long-view, and the macro dynamics of the historical trajectory were lost. It is no coincidence that the VoC approach performs best in the study of small-scale, short-term quasi-static comparisons. This is also why unquestioningly coming under the influence of the winds of globalization, VoC approach has been tempted to see transition from one particular variety to another as more likely or desirable. This means tracing the reverse path to that of SoC approach as it sets out to elaborate the implications of variety only to rediscover en route uniformity by default. In order to perform equally well at the larger-scale, longer-term domain, VoC approach needs to be reinvested with some of the lessons of the SoC approach as well as drawing upon the heritage of a critique of the SoC approach based upon the works of Polanyi, Gerschenkron, Braudel and Wallerstein among others.

The VoC approach has centered its attention on the firm as the most important single institution responsible for the characterization of the varieties of capitalism. Just as the SoC approach was based on the primacy of production as best represented by the *factory*, VoC approach tries to generalize by starting with the *firm* as the representative institution of capitalism. This may be a better choice, but one lesson of the SoC approach was the highly misleading association of modes of production with ideal sites of production such as the factory and the manor.

One major problem with SoC approach was that it was based on a standardized notion of capitalism the comparable counterparts of which were sought in history as a finite number of *modes of production*. As the number of modes of production increased, transition became less and less likely and the necessary stages all the more disputable. Ultimately, refuge to the idea of a social formation as consisting of co-existent modes of production made transition all the less comprehensible. In contrast, VoC approach started with identifying *forms* of capitalism as manifest in actual contexts. This meant not only taking capitalism for granted without actually defining it but also externalizing capitalism under the rubric of the "globalization" thrust. In this way, we are sent back to Sweezy's conception of transition as largely the result of exogenous factors. It is ironical that an approach that tries to emphasize the capitalist nature of variety succumbs to a position that actually externalizes the operation of capitalist dynamics on a grand scale. The Achilles' heel of the VoC approach is that it confuses the essence and form of capitalism and loses sight of the fact that there is one and only one capitalism that takes different forms depending on the historical and institutional contexts in which it manifests itself. As Screpanti put it, "We need a theory which is general enough to encompass all possible forms of capitalism, but at the same time, flexible and complex enough to accommodate many idiosyncrasies." (2001, p. 256). Moreover, "It is possible for a mode of production to remain unaltered in its fundamental characteristics, and yet take different specific forms." (2001, p. 258). In his dual critique of the mainstream conception of capitalism and stages, Braudel made this clear. He identified as the essential characteristic of capitalism that bestows upon it a certain unity across time and space "its unlimited flexibility, its capacity for change and *adaptation*" (Braudel 1982, p. 433). Braudel insisted: "On a world scale, we should avoid the over-simple image often presented of capitalism passing through various stages of growth, from trade to finance to industry—with the 'mature' industrial phase, as in the so-called industrial phase (and both terms cover a multitude of forms)" (Braudel 1982, p. 433).

Without this notion of an all-encompassing capitalist dynamics, we are left in the obscure with the ambiguous notion of varieties of capitalism. The limits of the perspective become all the more clear when cases like contemporary China that cannot conveniently be classified as capitalist force themselves upon us (Arrighi 2007, p. 24). In order to comprehend this case, we need to approach with a broader perspective that tolerates variety not only within but also beyond capitalism. It may well be that even if there is a convergence trend among European and North American cases, this may not be reflective of a global reality; that is, variety might simultaneously be forcefully being reproduced at a global level.

Be that as it may, a more inclusive varieties approach would further require that we move beyond the singular myopic focus on capitalism and distinguish instead between market and capitalism *pace* Braudel. This distinction is most explicit in Braudel who concentrated his attention on the further specification of both categories. In Polanyi, the same distinction also exists albeit in a disguised form. Polanyi concentrated his investigation on the further analysis of the market system. However his specification of *haute finance* as an institution par excellence of capitalism and as distinct from and external to the market ought not to be overlooked (Polanyi 1944). In this sense, his framework of analysis is compatible with that of Braudel. Yet once this distinction is made, we cannot content ourselves with the tools derived from the analysis of (narrowly-conceived commodity-) market economies be they of the neoclassical or new institutional kind. This brings us to the scheme of analysis by recourse to the concepts of reciprocity, redistribution and exchange that Polanyi invited us to elaborate. Polanyi (1957) noted that market categories would mislead us to understand nonmarket economic systems and insisted that we needed a broader frame of reference with its own proper analytical tool box than that of the market, in order to evaluate the specificity of the market against a historical backdrop.

Polanyi (1957) emphasized that these forms of integration coexisted in different combinations and in no way implied either stages or progress. This approach rids us of the major shortcomings of the SoC approach as it was originally intended for. However, it also has much to offer in order to lead the VoC approach out of its cul-de-sac into a broader domain that not only tolerates but also welcomes variety as would befit a truly institutionalist approach. One important characteristic of contemporary institutionalism is the role attributed to the so-called impurity principle. As Screpanti stated "Impurities cannot be ignored when accounting for historical evolution, since they produce the variability through which competitive evolution drives institutional change." (2001, p. 267). Accordingly, in order for an economic system to function, different subsystems are needed. How these are actually combined determine "the nature of the specific variety of capitalist system" (Geoffrey Hodgson 2002, p. 213). The implication is clear: "An immense variety of forms of any given socio-economic system can exist." (Hodgson 2002, p. 213). We hereby recognize the textual richness of true variety that remains way beyond either the SoC or the VoC approaches.

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