1 Institutions and comparative business studies: supranational and national regulation

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imparting predict

1.1 INTRODUCTION

Through the 2000s, institutional approaches have been particularly influential amongst comparative studies of business. What institutional approaches suggest is that embedded social structures and rules mould and are remoulded by the choices made by firms. In practice, this means that within specific national contexts, there will emerge a dominant way of doing things, which may have the beneficial effects of imparting predictability and lowering transaction costs. Critics have charged that this emphasis on the national has in many respects led to a discounting of regional and sectoral differences, and indeed, supranational trends and pressures. In the international domain, there are three possible critiques. The first centres on a discounting of the effects of supranational institutions; the second on a neglect of the role of multinational or transnational companies; and the third on an overattention to comparison and insufficient attention to the wider nature of capitalism itself.

1.2 SUPRANATIONAL INSTITUTIONS AND NATIONAL INSTITUTIONAL FRAMEWORKS

1.2.1 Supranational Institutions: The Limits of Europeanization

As Boyer and Hollingsworth (1997) note, institutions are nested within each other. Whilst a single institutional level – most commonly the national – may have particularly strong effects, the impact of other levels of institutional concentration at both the subnational and supranational levels should not be neglected. In practical terms, there are two major sets of supranational institutions that may affect what nations and firms do. The first are regional coordinative and cooperative bodies such as the European Union; whilst the second include bodies with a global brief, most controversially international financial

institutions such as the International Monetary Fund (IMF) and the World Bank.

Through the 1990s, there were both optimistic and pessimistic accounts of the effects of the European Union. The former saw the Union as the agent for dissemination of a common European social model, infusing many of the features of the coordinated markets into more peripheral regions (Masters, 1998). Through the Lisbon process, the intention was to promote 'better jobs and social cohesion', whilst ensuring that Europe becomes both competitive and dynamic through a reliance on knowledge-based activities (Tausch 2006). The process fell short of predictions: up until the economic crisis, liberal markets such as the United States (US) outperformed European coordinated markets (Tausch 2006). In its aftermath, mature European coordinated markets appear to be faring much better than the US model, highlighting the continued viability of the European social model; this would highlight the continued relevance of the more social dimensions of the Lisbon agenda, failings in the process notwithstanding.

In contrast, more pessimistic accounts depicted the European Union (EU) as an agent for liberalization, eroding the capabilities of individual governments to restrain firms and markets (O'Hagan 2002). As Grahl and Teague (1989) argued:

> In most cases, the intention is not to substitute Community versions for existing national regulatory systems but merely to outlaw any impact of the latter on the free movement of commodities, services and factors of production: a veritable 'bonfire of controls' which will eclipse the minor relaxations first covered by that slogan.

In practice the process has been revealed to be more complex than suggested by either side. As Scharpf (2002) notes, whilst there have been broad directives towards marketization, social policy choices have remained clustered at national level, albeit through efforts to promote common policy initiatives through performance evaluation and benchmarking.

Within accession countries, the process has been mixed: there has been no uniform convergence to either social or market models. At least one relatively recent accession state has indeed moved close to the coordinated archetype (Slovenia), and another (Slovakia) has infused many aspects of this model (Lane and Myant 2007). Again, there is at least one country that has come close to a liberal market ideal (Estonia), with others adopting aspects of this model. A third group of countries have continued to follow a distinct trajectory, liberalizing in many respects, but also retaining features of the past, and adopting certain features of European coordination, a good example being Hungary. Finally, on the peripheries of the EU

– Romania, Bulgaria and, perhaps, Greece – aspects of 'wild capitalism', more common in the non-EU Balkans (Upchurch and Zivkovic forthcoming), may be encountered. Above all, this would include the presence of a very large and poorly regulated underground economy. Hence, whatever the predictions of convergence – whether of liberalization or the diffusion of a social model – the evidence to date is of difference and divergence.

A second dimension is that institutional coverage is not always as even or as effective as commonly assumed. Within peripheral areas of the EU there is, as noted above, a large underground economy, composed of black market trading (that is, the illegal import and unregulated selling of goods), reciprocal bartering of goods and services and, finally, the sale of services and legally obtained goods and the hiring of labour unofficially and 'off the books' in order to escape taxation and labour standards (Schneider and Enste 2002). Williams (2010, 226) argues that a trend has been for workers to engage in underground work increasingly out of necessity, rather than as a means of supplementing formal incomes.

In practical terms, this makes for a progressive erosion of labour standards, as compliant firms lose competitive advantage to less principled competitors. Not only does unregulated work make for poor terms and conditions of service for those employed, but in weakening the fiscal base of the state and debilitating the regulatory base, it may both corrupt the body politic and contribute to national debt crises. Whilst it can be argued that it is common for developing economies to have both an internationally linked sector and a 'stagnant, miserable' sector that is irrelevant to international capitalism (Gourevitch 1979, 889), this discounts the interlinked nature of the sectors, the extent to which one may undermine the other, and variations in the extent to which national political institutions may mediate this mismatch.

In theoretical terms, all this highlights the only partial nature of institutional coupling not only between supranational and national institutions, but also between the national and the local, a phenomenon particularly pronounced in peripheral EU states. Institutions are both polyvalent and multilayered (Ferguson 1990, 17). Structures and associated rules do not always work in the manner intended, either in economic or social terms (ibid.). In part, this may reflect specific historical legacies. Vested interests may have very different agendas to the official one, and may actively thwart even the most powerful and determined government (Ferguson 1990, 17). Ironically, this process of contestation and opportunism may result in undesirable or unpredictable outcomes for all parties; the pursuit of predetermined agendas and their subsequent thwarting may preclude meaningful trade-offs and the bedding down of mutually acceptable rules and conventions. And, whilst the existing literature focuses on the role

of vested economic interests undermining national – and, potentially, supranational – institutions, an interesting development has been the role that popular protest may play in thwarting both. Notable recent examples have been Iceland (Wade and Sigurgeirsdottir, 2010) and, even more recently (2011), Greece.

1.2.2 Supranational Institutions: The World Bank and the IMF

Existence of supranational institutions facilitates collective action where there may be market failures (Stiglitz 2002). It is also argued that provision of global public goods provides part of the logic for global collective action. That is to say, global problems in security, economic stability, knowledge, environment, humanitarian assistance and health require supranational institutions which can facilitate collective action (Stiglitz 2002; Simmons and Martin 2005). Therefore the Bretton Woods institutions of the World Bank and International Monetary Fund can be examined from the perspective of global public goods and externalities.

The regulatory architecture of the global financial system was created soon after the Second World War at an international conference at Bretton Woods, New Hampshire. At the end of the conference two supranational institutions of the IMF and the World Bank came into being, and since then these two institutions have continued to affect what nations and firms do. While the initial remits of the institutions have changed since their establishment (Dicken 2011), these two supranational institutions have continued to affect both the policies and the institutions of member nations, particularly those using the Bank's and the Fund's facilities (Stiglitz 2002). Crises from 1970s to date have forced these two institutions to reorient their activities.

In particular, the Fund's role changed dramatically after the collapse of the Bretton Woods system in 1971. The Fund has been criticized for exerting to much interference (Stiglitz 2002), particularly in developing country policies, yet without any political accountability. While the Fund was not a major lender too industrial nations after 1976, its position became more prominent during the recent financial crises. In supporting the Fund's central role in the global financial system, Truman (2009) argues that:

> It is ironic that a year ago it was fashionable to argue that the IMF was irrelevant as a lender and marginalized in its surveillance of the global economy and financial system. Benign economic and financial conditions were projected to continue indefinitely. Moreover, the prevailing view was that the systemically important countries either had guaranteed access to international financial markets or had effectively self-insured against future external financial crises by amassing huge stocks of foreign exchange reserves. (Truman 2009, 3)

> More recently however criticism shifted to 'Where has the Fund been? The IMF is not discharging its duty to protect the international financial system. We must remake the international financial architecture with the IMF at the center.' (Truman 2009, 4)

This raises an interesting contradiction. At the time of the onset of the financial crisis, increasing numbers of Latin American countries had returned to growth largely through ignoring the IMF's strictures. A number of leading Asian nations and Russia had indeed stockpiled foreign exchange, simply to avoid having to turn back to the IMF in the event of a repeat of the Asian financial crisis. However, the IMF regained a lot of its former power during the 2010 crisis within the eurozone periphery; this time, developed economies were forced to turn to the IMF. Interestingly, South Africa set as a condition for its 2011 bailout of Swaziland that the unhappy country should adhere to strict IMF prescriptions, indicative of the body's continued influence on the continent. The IMF appears to have learned little and forgotten nothing from its recent history, and the policies imposed in Southern Europe and elsewhere remain the same formula of strict austerity, despite their poor track record elsewhere.

Similarly there have been questions raised as to whether the World Bank was really needed (Stiglitz 2002). While in terms of capital investment a small proportion of capital spending goes to the least-developed nations of Africa, supporters argue that the World Bank's role of expanding knowledge (that is, facilitating knowledge transfer for policy development to attract capital inflow) is more important than actual investment.

As Chapter 8 in this volume alerts us, it would be wrong to consider both bodies as monolithic, or incapable of amending their agendas to circumstance; there are, indeed, specific interventions that have had positive effects. At the same time, a focus on austerity, government spending cuts and the payback of debt leads, as Keynes alerted us, to the 'paradox of thrift', with domestic demand being depressed, delaying recovery, and making debt payback even harder. Moreover, over-hasty privatizations have, from Africa to Russia, led to corruption and asset stripping, the emergence of an overly powerful class of oligarchs, and the accumulated wealth of generations being frittered away on speculative activity or squirrelled away offshore. Such tendencies may 'crowd out' more orthodox forms of economic activity, making the rewards of conventional entrepreneurship appear meagre. Whilst there are immediate savings to be made through cutting back on basic education and health care, the costs are borne by individuals and firms into the medium and long terms; ultimately, firms face being locked into low-cost production paradigms, or facing significant upfront costs in correcting the failings of the system.

1.2.3 Supranational Institutions: Competing Agendas

Second image reversed (SIR) approaches concern themselves with the relative decline of the national state and how international developments mould and remould national choices. In contrast to traditional theories of international relations, which explore the impact of national politics on international relations, SIR approaches assume that domestic politics may represent the result of international pressures (Gourevitch 1979). As Gourevitch (1979, 882) notes: 'instead of being a cause of international politics, domestic structure may be a consequence of it. International systems, too, become causes instead of consequences.'

Central to the dominant liberal market model has been the rise of unrestrained global finance; ironically, whilst national governments are the final line of defence in regulating it, unrestrained global finance itself undermines the autonomy of national governments (Grahl 2011).

Nor is the effect of the supranational confined to specific structures: dominant ideologies may impact on domestic agendas as may external threats of force (Gourevitch 1979, 883). More peripheral countries face the challenge of dealing with evolved supranational economic structures and ties. Gourevitch (1979) argues that the Mediterranean European economies are in a particularly difficult position. On the one hand, their lower labour costs than North-Western Europe makes them an attractive locale for specific types of manufacturing. On the other hand, they 'lack the matured strength to hold on [to this type of investment] for good, and consequently face the constant danger of being thrown off' (Gourevitch 1979, 888). Over 20 years after the Gourevitch paper was written, this still holds true not only for the peripheral Mediterranean economies, but also for much of Eastern Europe. Competiveness based on low labour costs opens up the omnipresent threat of even cheaper labour being available elsewhere, whilst low-cost production precludes the investment in higher-value-added (and more spatially rooted) production paradigms (see Ebner 2008). In turn, in the absence of the latter, supporting institutional networks are likely to be weaker, and complementarities based on systemic strengths less likely.

As Thatcher (2007, 23) notes, whilst a strength of SIR approaches is their recognition that international pressures impact on domestic choices, there are many dimensions to internationalization – political, economic and technological – which are bundled together, when in fact their impacts may be diverse. Furthermore, SIR approaches assume that internationalization is an exogenous approach, beyond the control of national governments (ibid.). In practice, national governments do retain autonomy in meeting external pressures: the above-mentioned example of Iceland

contrasts sharply with that of Greece and Ireland. Whilst the latter are, of course, more heavily constrained by European institutions, the specific contours of the present (2008–) financial crisis highlight not only supranational pressures, but also shifting domestic responses.

1.2.4 Supranational Institutions and Complementarity

A relatively neglected area has been the role of supranational and national institutions in making for interlocking complementarities. Analyses of supranational regulation often assume that they make for homogenizing outcomes, when they may in fact support complementarities within and between states. Such complementarities may build on systemic strengths and compensate for weaknesses. In simple terms, it would not be possible for every European state to export at the same level as Germany; specific lower-wage economies play a similarly important role in providing production sites for the supply of lower-cost, lower-value-added components. Finally, common markets allow for the interchange of goods and services not always in an equal manner, but in one that allows for the redress of systemic imbalances. It is a something of a truism to say that Europe can only accommodate one mega-exporter on the scale of Germany; but even more true that, at best, more than one City of London would spell ruin for Europe.

Although complementarity is often depicted as mutually supportive practices and rules that build on systemic strengths, complementarity may also be rules and regulated practices that compensate for systemic weaknesses (Crouch 2005). What is further key to the understanding of complementarity is that of embeddedness. There is little doubt that emerging complementarities within Europe have been shaken through systemic shocks as part of the ongoing financial crisis, and as yet it remains unclear whether systemic patching up and 'tinkering' will suffice (see Boyer 2006) or whether a further round of restructuring and institutional rebuilding will be necessary, a process that may involve a degree of institutional denesting. In other words, meta-institutional failings may not necessarily be compensated for through redesign, but through adjustment to, and a greater emphasis on, component parts.

The response of the establishment to the crisis has been to push through new waves of neoliberal reforms aimed at further weakening institutional mediation, whether at national or supranational levels (Grahl 2011). Does this mean the end of the European project? Whilst we remain optimistic, it is evident that the direction of the EU as an enabler or a constrainer and mediator of markets needs revisiting. As poorly regulated markets have directly caused the financial crisis, it is scarcely logical to argue that more

deregulation will fix it, either through fresh rounds of forced liberaliza
at member state level, whether or not forced by speculative activity, c
a condition of central bailouts. This leads us on to two central questi
Firstly, are we on the brink of a Polanyian 'double movement'? And,
ondly, how closely are institutions coupled, not only at the supranati
but also at the national levels?

1.2.5 Polanyian Double Movements and the Angel of History

In his classic writings on political economy, Polanyi (1944) argued
there was a natural long-term fluctuation between periods of statism
periods of unregulated markets. There is certainly an element of tı
to this. Unrestrained markets bring about excesses that will ultima
need restraining. Again, state mediation involves compromises betw
parties brought about by the very real threat of systemic collapse and
absence of viable alternatives; over time, such compromises will be ope
revisiting and contestation, with economically dominant interests gra
ally picking themselves free from state restraints. However, there are a
limitations. Firstly, there is an element of epochalism; this assumes th
long move in one direction will be countered by one in another. After th
decades of liberalization, this may appear a comforting antidote to a c
stant flow of news on market excesses. However, a long historical rev
will reveal that there have been very lengthy periods of growth – all
interrupted – and others of long decline; one simply needs to compare
birth of the modern era with the long decline experienced within parts
the Middle Ages.

In his recent writings, Streeck (2009) has pointed to the non-lin
path of historical development. There may be swerves towards or av
from deregulated markets, but each swerve is in a different place (ibi
History may repeat itself, but never in the same place and in the same w
any state-mediated compromises will be fundamentally different to th
experienced in the past. Here one is reminded of Walter Benjamin's noti
of the 'Angel of History' that moves ever onward, leaving 'rubble' behi
(Benjamin 1978). One may indeed build new structures out of the rubb
or seek to reconstruct aspects of previous regimes, but the resultant stru
ture will never be the same.

Interestingly, the 1920s economic crisis coincided with a major ener
transition, away from coal and to oil and gas. Whilst ultimately t
allowed for cheap energy inputs for many years, it fundamentally chang
the allocation of capital, favouring owners of more fungible assets ov
those with less (Wood and Lane 2011). It also had the long-term eff
of undermining the competitiveness of those industrial centres who

competitive advantage was founded on rich coal deposits in close proximity, although this would not become immediately apparent. Since the 1970s, oil has gradually become more expensive (the drops in the 1980s notwithstanding), and today, although oil usage continues to rise, the proportion of oil as part of the global energy mix is declining. Again, this is having the gradual effect of fundamentally changing input costs, a process which favours speculative activity, and those less productive sectors of capital with highly fungible assets (see Wood and Lane 2011). The outcome may be a new period of growth once the energy transition is complete, but equally it could be a long decline, as the basis of much economic activity is undermined. And, an increasing proportion of oil extracted is unconventional, with costs to the ecosystem which are yet fully clear, yet doubtlessly great costs will be posed on future generations. It should be noted that whilst the literature on comparative capitalism accords much attention to the institutional underpinnings of industrial capitalism, rather less is accorded to that of rentiers (Krippner 2005).

1.2.6 The Closeness of Institutional Coupling

Recent work on internal diversity within national varieties of capitalism has highlighted the extent to which institutions are considerably less closely coupled than previously presumed. Whilst this is particularly true of the relationship between supranational and national institutions, it is also true within nations. We have seen this in the case of peripheral Europe. However, even within mature economies there may be divergences between the national and the regional, with the latter sometimes providing frameworks for growth that are more effective than the national. An obvious example would be the north Italian industrial districts (e.g. Whitley 1999), but examples can be found in most developed countries. Within the United Kingdom (UK), a good example would be North-Western England, where the developmental trajectory has been rather more statist than that encountered elsewhere in England (Hudson 2011). Of course, a lack of close coupling can also have negative effects; regional institutions may serve local elites whilst impeding orthodox business activity and undermining labour standards (not that the two are always compatible).

1.2.7 Bringing Political Economy Back In: Growth Regimes and Ecosystems

If crude theories of globalization as an homogenizing force are mistaken, a limitation of the 'varieties of capitalism' literature is that it is too much

about variety, and too little about capitalism (Jessop 2011; Thompson and Vincent 2010). In his recent work, Jessop (2011) draws a distinction between the wider capitalist ecosystem, and specific types of national institutional arrangement. The lead-up to the crisis, and the policy responses to it, have in both instances reflected the transnational hegemony of neoliberalism, with debates around mechanisms rather than desirable ends (Grahl 2011).

Inherent contradictions across capitalism do not vanish simply because specific spatial and temporal fixes appear to work (Jessop 2011). Jessop (2011) argues that at specific times, one particular variety of capitalism may assume ecological dominance, 'shaping the development of other varieties'. Since the 1970s, this has been the liberal market model, even if, as Jessop (2011) notes, it retains a 'pathological dependence' on other varieties, most notably as sources of raw materials and manufactured goods, and inward capital flows to plug structural balance of payments deficits. At the political level, 'crony capitalism' is not the preserve of developing markets (ibid.); mature capitalism can incorporate pathology.

1.3 SOCIAL ACTORS

Within debates surrounding institutional effects, there has been growing interest in the role of social action vis-à-vis structure. The somewhat mechanistic notions of structuration theory (Giddens 1984) have given way to an interest in action within historical context, and the impact of formative choices at times of institutional fluidity (Sorge 2005). Moreover, as Simmel (1981) alerts us, the choices and actions of individuals and associations reflect not just responses to objective circumstances, but also subjective reinterpretations thereof. In considering the supranational, there are two particularly relevant sets of actors: multinationals and the precariate.

1.3.1 Multinationals

It is particularly significant that many of the more influential texts on comparative capitalism, most notably Hall and Soskice (2001), Amable (2003) and Streeck and Thelen (2005), make no reference to multinational or transnational companies. Yet, as Thompson and Vincent (2010) note, whilst national institutions are important, the spatial embeddedness of firm-level work and employment practices is less likely when global firms can gain advantages through replicating practices. Indeed, it can be argued that, contrary to much of the literature on comparative capitalism, contrary to the 'varieties of capitalism' (VOC) literature, global

capitalist production is increasingly likely via global networks (Thompson and Vincent 2010, 58).

In an attempt to enlarge the 'varieties of capitalism' framework, Nolke and Vliegenthart (2009) classified a particular form of capitalism: dependent market economies (DMEs). Countries in Central and Eastern Europe are considered as DMEs, as they are heavily dependent on multinational investments and prosper by being an active and credible link of the supply chains of large multinational corporations (MNCs). When foreign direct investment and multinationals play a central role in an economic system, inevitably there will be coordinated efforts to imitate what works in subsidiaries in different countries. Thus the MNC starts to become a change agent and integrate national production systems with global networks (Dunning and Lundan 2008; Dicken 2011). While the international business and 'varieties of capitalism' approaches to institutions have their differences in terms of theoretical assumptions, Jackson and Deeg (2008) demonstrate that there is a strong potential for cross-fertilization between these two approaches.

Whitley (2010a, 384) argues that the internationalization of share ownership of large firms may reduce employer–employee commitment. More remote shareholders may find it more difficult to price accurately the benefits flowing from investment in training and moving to higher-value-added production paradigms; actual choices are likely to vary between industries and according to the market for corporate control. Vogel (2005, 149) argues that increased capital mobility 'allows firms to exit from long term relations with workers' by moving operations abroad, and for firms to move from local to overseas financing. Moreover, regulatory competition between countries seeking to attract foreign direct investment (FDI) can mould both policy choices and the actual practices adopted by firms (Thatcher 2007, 262).

As Whitley (2010a, 384) notes, there is growing coordination across national boundaries, but the integration of MNCs into regional and national governance frameworks is variable. In some contexts, MNCs seek, *inter alia*, to access low-cost labour, and in others markets and/or specific skills sets and knowledge (ibid.). The general effect of this has been to make it harder for national regulatory authorities and industry associations to rein in free-riding and organize markets on a collective basis (Whitley 2010a, 384). However, where the presence of firms is on the basis of accessing skills and technologies, firms will become increasing embedded in local governance regimes (ibid., 385). In those cases where markets are large, rich and/or highly significant, MNCs will be in a weaker bargaining position, and may simply have to fit in (ibid., 385). Indeed, MNCs can seek to build on the combination of strengths that come from fitting into

many different settings, allowing for the development of new transnational organizational capacities (Whitley 2010b, 480). If, however, there is little central direction, and local units are simply allowed to adapt, then there can be little move forward to building such capabilities. Transnational commitment based on complementary contributions of different settings requires genuine authority sharing (ibid., 481); the basis of efficiency gains may dilute the capacity of the MNC to act as an autonomous and lightly committed actor across national boundaries.

1.3.2 Precariate and Protest

One of the features of the global capitalist ecosystem is the growth of the precariate, a large underclass, disproportionately composed of the young, who are condemned to a lifetime of insecure working with poor terms and conditions of service (Standing 2011). A defining feature of the precariate is a lack of occupational and spatial rootedness. It is not simply about working in poor jobs, but of forced moving between occupations, and often migration, simply in order to survive (Standing 2011). Whilst amongst the precariate are citizens of every country, a feature of this process has been large-scale migration within and between countries, often with the end destination seeing burgeoning slums (Davis 2006).

Although the rise of the precariate is undeniably political destabilizing, the political consequences are not necessarily progressive (see Standing 2011). For example, within contemporary Britain, economically powerful interests have been able to secure the compliance of much of the working class through systematically engendering fear of the underclasses, an agenda painfully visible through a scrutiny of the overwhelmingly Conservative print media. Similar trends are visible elsewhere, from the United States to Berlusconi's Italy. Amongst the underclasses themselves, the certainties of religious fundamentalism – be it of the Pentacostal or Islamic variety – may displace emerging progressive agendas (Davis 2006).

This does not deny the possibility of progressive alternatives. Examples would include protest movements across Europe, from the town square occupations in Spain to the mass demonstrations in Iceland. Nor are progressive outcomes impossible, as the case of the latter will evince. Nonetheless, the fear of the underclasses, be they immigrants or simply undeserving poor, is one area where the Right have managed to gain traction, despite the bankcrupcy of the neoliberal policies they espouse. To date, a progressive alternative response to precariatization, centring on the defence of labour standards, remains only partially formed, and marginalized in the mass media.

1.4 CONCLUSION

Whilst institutional frameworks offer effective analytical tools to understanding the differences in what firms do between nations, much of the literature on comparative capitalism fails to take account of the articulation between embedded rules and real practices, the often weak nature of institutional coupling, and structural changes in global capitalism. The challenges of institutional analysis involve not only taking account of such issues, but also a closer understanding of the impact both of transnational institutions and, indeed, actors. The latter range from multinational corporations through to the spatially and occupationally uprooted underclasses.

Within any theoretical project, there is always a trade-off between rigour and parsimony. However, comparisons of practice between context need a more systematic understanding of the transnational and the ecosystemic. Subsequent chapters in this volume seek to grapple with such issues and, indeed, what really defines national difference.

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