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# Institutional Diversity: Current Contestations and Emerging Issues

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**Abstract:** This paper explores some of the principal drivers of internal institutional diversity and change in specific locales, present and likely developmental trajectories, and the changing impact of sub-national, and supra-national actors, ranging from new categories of investor to political and economic elites. It is concluded that capitalist diversity within and between contexts is likely to intensify despite common pressures to liberalization, reflecting fundamental changes in resource availability and elite compositions.

**Keywords:** comparative capitalism, institutional change, economic crisis

**JEL Classifications:** B5, P5, Z1.

## 1. Introduction

Institutions constitute sets of rules and embedded practices of behaviour. However, there is much debate as to the relative importance of specific institutional features, and the impact of one specific locale of relations, rather than another, what are the underlining forces driving structural institutional change, and whether institutional arrangements are readily replicable. This paper explores some of the principal drivers of internal institutional diversity and change in specific locales, present and likely developmental trajectories, and the changing impact of sub-national, and supra-national actors, ranging from new categories of investor to political and economic elites.

## 2. Features

### 2.1. Hierarchies

In the 1980s, the rise of neo-liberalism to assume a dominant position in the global ecosystem, was parelled by a renewed interest in theorizing about optimal market circumstances. In an influential 1990 work, North (1990) argued that the most important institutional feature was private property rights. If private property rights were strong, individuals would be able to engage in contracting with greater confidence, and make optimal investment decisions. Again, such institutionally embedded rights would weaken the relative position of other players seeking to make demands on economic agents, be they governments or other categories of stakeholder within the firm. Much of this argument is ahistorical; there have been many historical incidences of rapid economic growth in cases where property rights are relatively weak, and/or institutionally mediated against those of other stakeholders. However, the influence of a particular argument is often contingent on timing, and there is little doubt that North's underlying argument struck a deep chord amongst both the policy establishment in many countries, and, indeed, among sections of the academic community of economists who were seeking to burnish the relevance and importance of their discipline vis-a-vis other strands of the social sciences, that in recent years, had been dominated by more communitarian concerns.

This, of course, raised the question as to which specific sets of institutional features are most likely to effectively protect private property. Although there have been a range of accounts, encompassing issues from formative historical experiences (Robinson, 2002) to electoral systems (Pagano and Volpin, 2005), there is little doubt that the most influential strand of the literature has been the work of La Porta and colleagues (see La Porta et al., 1997; 1998; 1999; 2000). What La Porta et al argue is that it is legal origin that has the most important effect on property rights and, hence, macro-economic outcomes. La Porta et al. draw a key distinction between law through legislation, and judge led case law; the latter is held to make for very much stronger property rights. In contrast, given that it represents the outcome of political processes and trade offs, law through legislation invariably involves more of a compromise, and hence, the rights of property owners are likely to be diluted by those of other interest groupings. As civil law systems are legislation driven, and much of the body of law in common law systems is case law, the latter be characterized by a stronger emphasis on property rights, and hence perform much better.

In support of their assertions, La Porta and colleagues (1998; 1999), provide some evidence that common law systems perform better. However, this is based on evidence from the 1980s and 1990s, the heyday of neo-liberalism; a scrutiny of the evidence of preceding decades would have yielded converse results. Again, after absorbing the vast costs of unification, civil law Germany today performs very much better than common law Britain. Finally, the panel of countries encompassed by La Porta and colleagues analysis somewhat controversial. More specifically, their results are distorted by the inclusion of the civil law countries of Francophone West Africa in their analysis, a region which battles with both severe climatic and epidemiological challenges, and the long legacies of particularly extractive colonial policies (Robinson, 2002).

For the purposes of this article, a more serious limitation is that this approach is poorly equipped to understand the nature of diversity within national contexts. Firstly, as Milhaupt and Pistor (2008) note, there is an assumption that the law has similar effects regardless of setting, and that the development of a particular legal tradition will cause all players to respond in a broadly comparable way, irrespective of their own specific circumstances. Secondly, it assumes that nations have coherent national legal systems (Armour et al., 2009). In practice, two supposedly archetypical common law countries, the United Kingdom and Canada incorporate regions (Scotland, Quebec) which have strong civil law elements. Thirdly, it assumes - as is the case with all property-rights based approaches to institutions - that there are invariably winners and losers: either property rights owners are paramount, with positive economic outcomes, or other players circumscribe them, with property owners and ultimately the economy at large losing out (Goergen et al., 2009). Finally, even in common law systems, much of corporate law actually flows directly from legislation, providing parameters for specific sectors and players (Dam, 2008).

Finally, it could be argued that any hunt for a dominant or supreme institutional feature that will determine all aspects of the behaviour of particular agents will invariably fail. For example, in comparing the impact of different sets of institutional features on firm practices, Goergen et al. note that whilst the relative extent of trade union power may have some linkage to legal tradition, they also found that it had little effect of the relative propensity of firms to make redundancies (Goergen et al., 2009). Yet, according to La Porta and colleagues, the relative ability of firms to hire and fire labour is a key product of legal origin (Botero et al., 2004).

### 2.2. Institutions as Centres of Networks of Relations

Whilst undeniably diverse, the socio-economic literature on comparative capitalism is united as seeing institutions in mediating coexisting networks of social relations. Hence, it is unlikely that a single institutional feature is paramount (see Hall and Soskice, 2001; Whitley, 1999). The revivial of socio-economic approaches to institutions in the 1990s and early 2000s was again concerned about the differences between the Anglo-Saxon world, and the alternative advanced economies of north-western continental Europe, Scandinavia and Japan, where there are higher levels of institutional mediation. The former were dubbed shareholder dominant or liberal market economies (LMEs), and the latter stakeholder dominant or coordinated market economies (CMEs) (Hall and Soskice, 2001; Dore, 2000). Although it was held that both models were intrinsically viable, much of the literature made little secret of a broad preference for CMEs.

It soon became apparent that, whilst providing a more nuanced account than rationale hierarchical approaches, such dichotomous models had serious limitations in accounting for diversity and change. However, with respect to diversity, later developments and critiques tended to focus more on the problems of diversity within archetypes rather than between countries. More specifically, it was held that the CME model in particular encompassed a very wide range of distinct institutional orders. Hence, early multi-archetype models recognized key differences between developed coordinated markets of the Far East, and those of continental Europe (Whitley, 1999; Amable, 2003). Again, it was recognized whilst somewhat more fluid, the emerging market economies of Eastern Europe, and the European Mediterranean states, retained distinct characteristics, and even if not exhibiting the same degree of institutional coupling and coherence, still continued to constitute identifiable capitalist archetypes in their own right (Hancke et al., 2007). Amable (2003) draws a further distinction between the continental European coordinated markets and those of Scandinavia, whilst other work has highlighted key differences between flexicurity economies (Netherlands, Denmark) and other coordinated markets where employment security is stronger (c.f. Wilthagen and Tros, 2006).

However, this does not explain the nature of diversity within national contexts, when, for example, there is much evidence to suggest that Northern Italy, for example, represents a distinct model in its own right (Whitley, 1999). Again, there is much difference in both Germany and Japan between large export orientated players, and smaller enterprises serving domestic customers, even if they have underlying ties and interconnections. A 1997 edited collection (Hollingsworth and Boyer, 1997) did highlight the extent to which institutional arrangements are nested at different levels from the sub-national to the suprantional. However, these pioneering insights were abandoned in much of the varieties of capitalism literature of the early 2000s, possibly on account of the underlying assumptions of institutions being fluid and contested, making the process of comparative analysis more difficult.

However, more recent work has revived this latter, key, point, which, of course, has always remained a central concern of regulationist writing. Although we will return to the issue of systemic change in later section of this paper, it is worth noting that national institutional arrangements are pulled in two directions. On the one hand, national players that are dependent on the specific advantages conferred by the system, may work to revitalize, shore up, or even accentuate distinguishing features. On the other hand, as Jessop (2012) reminds us, at a particular time, a specific model of regulation and practice may attain global ecosystemic dominance, reflecting structural changes in world capitalism. At this stage, there is little doubt that the dominant model is neo-liberalism; although its structural failings and contradictions have worsened over time, the benefits it confers on key categories of insider has led to its ever more aggressive promotion (see Jessop, 2008).

## 3. Complementarity

A key difference between rational hierarchical and socio-economic approaches to institutions is the question of complementarity. The latter is generally taken to mean that when working together, a specific set of rules and practices will make for better results than the sum of its component parts. As rational hierarchical approaches see the relationship between key players as a zero-sum game (Goergen et al., 2009), they would deny the possibility of mutually beneficial synergies and cooperation. In contrast, the literature on comparative capitalism has always placed a strong emphasis on the latter, and, more specifically, the extent to which the closer and denser ties between actors in CMEs have allowed a reconciliation of the interests and needs of different types of stakeholder.

However, a limitation of such a view is that it assumes that systemic features work together in an effective and mutually supportive way. In contrast, Crouch (2005) argues that a lot of complementarity is actually about compensation of specific systemic weaknesses or to overcome systemic inertias. For example, workers in Germany tend to posses relatively strong vocational skills, facilitating intra-sectoral mobility, which might otherwise, given high levels of security of tenure, make for unacceptable levels of inertia. Hence, different features of a system are neither perfectly aligned or mutually supportive, but by the same manner make for a stronger and more resilient system than would otherwise have been the case.

More recently, it has been argued that rather than playing a compensatory role, complementarities may ease, but at the same time, reinforce structural pathologies in the system (Jessop, 2012). For example, the coexistence of mega-importing and mega-exporting nations leads to great imbalances in the global economy, but at the same time partially and temporarily resolves problems of over-capacity and surplus capital. Does such a loose definition of complementarity mean that the concept ceases to be of utility at all? Here, we would argue that central to the concept of complementarity is one of accommodation, whereby different interests can, always on a temporary and contested basis, not only reconcile their differing agendas, but also support eachother through trade offs and accommodations, even if the latter may be reached through fortuoutous discovery rather than conscientious trade-off (Boyer, 2006).

## 4. Site of Features

### 4.1. Site of Features: Local

But, if systems are internally diverse, and much of this diversity may be perpetuated through differing processes of complementarity, where are distinctions likely to be encountered? Firstly, it may be on spatial grounds. All countries have core and more peripheral regions, with the former both contributing to the generation of overall wealth (trickle down) and emasculating the latter (backwash) (Myrdal, 1957). However, as Hudson (2012) notes, peripheral regions may leverage advantages of their own. For example, at particular times, national governments may be more or less willing to actively direct resources to the periphery, and to countenance policy options that are out of favour nationally. Hence, Northern England remains very much more statist than the south, owing to political expediency, successive waves of neo-liberal reforms notwithstanding; when combined with specific local attributes and capabilities, this has made for a very distinct developmental trajectory to that experienced by southern England, above all, London. Although the present UK government's policies of austerity have eroded this distinct feature, it has accentuated, rather than reduced, differences from the south.

### 4.2. Sector

Overlapping with region is the issue of sector. It is not only countries, but within them, regions, that have specific competitive advantages in the production of particular goods or services. This reflects the development of specific patterns of supplier and customer relations, physical infrastructure and natural resource availabilities and/or the human capital. When particularly close knit, such sectoral advantages may centre on particular industrial districts (Crouch et al., 2004; 2009). However, the latter may confer advantages on not one, but several sectors. This may include the production of precision components and machine tools, to the contribution the prosperity of a particular region may have to other local industries. For example, a wide range of manufacturing firms in Emiglia-Romagna depend on a dense network of suppliers of precision mechanical components. At the same time, a relatively well paid work force and general prosperity provides an immediate developed market for the region's premium foodstuff industry, allowing the latter to develop economies of scale, and hence, cost-effective exports.

Different cultural, social and infrastructural features may coexist, and in a complementary manner, contribute to a greater degree of development than would otherwise be the case. For example, in regions of South Africa, a developed cattle industry and a tradition of leather handicrafts has provided the basis for raw materials and skilled workers for the production of leather car seats for premium car brands (e.g. BMW).

This does not always mean that investment and capability building in specific regions are nationally beneficial. For example, in many developing nations export processing zones have made little contribution to national development, other than in the payment of basic subsistence wages to surrounding communities. Outside investors may seek to accentuate regional rivalries as a means of enhancing their bargaining power with national and local governments; here an example would be activities of MNCs in Western Bolivia in bolstering up demands for regional autonomy against national government. Again, when particular regions receive support for political reasons, the result patronage may benefit a narrow cross section of insiders, heightening regional disparities, but, in a manner that is, once more, pathological.

## 5. Actors

### 5.1. MNCs

As Whitley (2001) notes, by their very nature, MNCs are not rooted within a single institutional domain. As such, the effects of national and regional institutions on their constitution and orientation will be necessarily weaker than single country firms. MNCs may adopt one of four basic orientations to host nations. The first is, once more, as "norm entrepreneurs", disseminating emerging global practices or indeed, any particularly fashionable national model into other contexts (Dore, 2008). There is some evidence to suggest that, for example, the recent changes to the Japanese model are, to a significant extent due to foreign FDI (see Sako and Kotosaka, 2012). Although it is commonly assumed that the trajectory of any emerging supra-national model is in the direction of lower standards, there remain counter pressures, ranging from consumer pressure, to always incomplete and contested, supra-national regulations. An example of the former would Apple computer's recent agreement to relocate some of its production back to the United States in the face of persistent labour scandals at its Chinese sub-contractor; in turn, it is likely that this decision will impact back on the behaviour of the latter.

Secondly, MNCs may simply seek to impose the model developed in their country of origin. However, this transposition will never be complete, leading to additional diversity both within the country of domicile and the organization itself. Barriers to full transposition include variations in local human capital and technical capabilities, supply networks, and the needs of local customers. An interesting radical experiment in transposition has been the activities of Chinese MNCs in tropical Africa, that, in some instances, have imported even unskilled and semi-skilled workers, to reduce labour costs and communication difficulties, and to reinforce internal organizational culture (see Power, 2008). However, at the same time, this has made communication and interaction with local players more difficult, resulting in organizations that are particularly isolated from national institutional settings.

Thirdly, they may seek to access particular lucrative markets, adjusting their policies and practices to facilitate this process. This may not only result in, for example, the establishment not only of distribution and production facilities in the country of domicile, but also aspects of design, in order to be particularly responsive to local customer needs. Fourthly, and possibly overlapping with the market access strategy, they may seek insert themselves in local production regimes in order to reap their own specific advantages (Whitley, 2010; 2007). Even if an MNC may contest or challenge some aspects of the local model, they will still seek to adopt certain local practices accordingly. For example, US manufacturing sector MNCs have, for many years, tended to adopt aspects of the German model (e.g. higher levels of workforce participation, closer and longer term supplier relations, etc) in establishing manufacturing facilities in that country. At the same time, incremental adjustments in favour of organizational commonality may feed back to the wider environment of the country of domicile, making neither for global coherence, nor national stability, but rather dynamic and bounded difference (see Morgan, 2012).

Although much of the literature on MNCs has focused on their policies to labour, and their relations with local firms and other stakeholders, a further area where MNCs may impact on the local environment is taxation. Many MNCs only partially engage with local taxation regimes, giving them a considerable competitive advantage over local competitors. In turn, this may encourage the latter to cross national boundaries in order to reduce their tax burden. In turn, this will weaken the capabilities of national governments, and in forcing more of the tax burden back on normal salaried employees, weaken the basis of consumption, again, making for unevenness and diversity.

### 5.2. International Financial Institutions

Whilst in the aftermath of the Asian Financial crisis, it seemed for a period of time that the World Bank and the IMF - and the solutions they imposed - were increasingly less relevant, these bodies have been reenergized in the aftermath of the 2008 financial crisis. Again, the solutions imposed - austerity and cutbacks in government capabilities - would suggest that they have learned and forgotten little from the structural adjustment policies imposed in Africa in the 1990s. At the same time, there are important differences. Firstly, within the EU, their role is parallel to that of European institutions. Whilst the latter have also tended to promote orthodoxy, they are by the same manner ultimately accountable to coalitions of national governments, which, in turn, will make for rather more uneven outcomes in policy and practice, in some cases, reinforcing national and regional differences, rather than uniformity. Already, there has been much divergence between Italy and Spain, Portugal and Greece, reflecting great variations in state capabilities and relative bargaining positions vis-a-vis the paymaster countries of the north. Again, cutbacks in the mediating role of the state in countries such as Greece, which are already chacterized by deep internal divisions according to firm size and sector, will result in greater rather than lesser internal disparities.

Finally, whilst undeniably important bodies such as the IMF and the World Bank coexist with other transnational institutions, an example being the ILO. Whilst the latter is undeniably weaker, it has, through a policy of selective engagement with the international financial institutions again worked to moderate the rigidity of the former’s policy prescriptions according to specific national circumstances (Haworth and Hughes, 2012).

### 5.3. The Precariate

An emerging transnational player is the global precariate, a rapidly burgeoning underclass who lack security in employment, occupation, and even spatial locale (Standing, 2011). Although a contradictory characteristic of ostensibly neo-liberal national governments has been to work towards ever tighter restrictions on the movement of labour across national boundaries, the great imbalances in wealth and opportunities imposed by the global neo-liberal ecosystem has accentuated the movement of peoples across national boundaries by both legal and illegal means (McEwan, 1999). The existence of a large illegal workforce within individual countries opens up new opportunities for labour exploitation. Large areas of the formal economy (e.g. agriculture and food processing) may become heavily reliant on such labour, with sub-contracting to labour brokers effectively outsourcing law-breaking (Standing, 2011). Again, this contributes to great diversity within national settings, not only in terms of patterns of production, but also that of consumption. The rise of the transnational precariate also has far reaching political implications. Whilst fear of the rootless poor - above all the foreign rootless poor - has proved a powerful mobilizing device for right wing parties in many national settings, as even impoverished and illegal migrants develop local ties, they may eventually constitute a powerful political constituency, forcing far reaching realignment in politics. The export of legal and illegal labour may through remittances buoy up the economies of countries of origin. However, by the same manner, this would serve to separate production from consumption in the latter, contributing to gross balance of trade distortions, and relieving some of the pressures on local elites to govern effectively.

## 6. Change

Much of the diversity within national economies centres on the uneven nature of systemic change. Here, there are three broad issues worth considering: technology, resources and politics.

### 6.1. Technology

Tylecote (2012: p. 190) ties the relative fortunes of countries and institutional orders to long term technological change. Waves of innovation within the same broad techno-economic paradigm diffuse owing to "established routines" for capital provision and organizational receptivity to such advances (ibid.). Hence, adopting new technology is a low risk process, but becomes a higher risk one if the broader paradigm is exhausted (ibid.). At a time of change, firms may opt for lower production costs in emerging markets, as adverse to deploying new technologies to advance productivity (ibid.: p. 202). In the present age, rise of emergence of low wage manufacturing economies discourages longer term investment in the latter direction (ibid.). Moen and Lilja (2005: p. 369) argue that governments can and do promote the adoption of technologies and technical innovation. The latter reflects both a political process, and may involve institutional reordering or new institution building. At the same time, this process is likely to be an uneven one, reinforcing sectoral differences and diversity.

Morgan (2012: p. 2) argues that the innovation capabilities of individual firms in turn, reflects existing institutional dynamics and the opportunities they provide. Here, a key theme of the literature on comparative capitalism is that the denser and richer relationships between key players is likely to facilitate incrementally innovative innovation (Borsch, 2007: p. 176). In contrast, the liquid capital markets and the fewer restraints stakeholders may place on managers and owners in LMEs makes such contexts more conducive to radical innovation (ibid.). However,even in LMEs, the relative adoption of key technologies is likely to be moulded by the state: an example would be the role of defense spending in the US in fostering key advances in ICT. Again, as Aoki (2010) notes, technology diffuses in an irregular manner shaped by both physical enviromental and institutional circumstances.

### 6.2. Resources

Although technological advances may be bound up with long term systemic changes, the former in turn, is closely connected to the relative availability of key energy resources. As Wood and Lane (2012) note, the painful economic adjustments of the early twentieth century were bound up with a long transition from coal to oil. Although the latter for a long time provided for cheap energy inputs, it also undermined the competitive base of entire regions and industries; a case can be made that northern England has never really recovered from this transition. During such transitions, the owners of more fungible assets are greatly advantaged over investors with capital tied up in specific locales and processes, and indeed, workers with skills and expertise focused on sectoral needs (ibid.). Hence, it is hardly surprising that long transitions of this nature are also characterized by a high degree of earnings inequality (between those with adaptable and new relevant skills and capabilities, and those with obsolete ones) and unemployment.

Again, although demand for oil is increasing, oil and gas prices since the 1970s have become more volatile and generally higher; in line with this, the proportion of oil and gas deployed within the global energy mix is declining (ibid.). Associated with this process is the rise in the relative importance of owners of highly fungible assets, at the expense of more patient investors and those with less tranferrable skills. It might seem that this denotes a return of the rentier class, but in today's world, the former comprises not only rentiers, but also new investor categories such as Sovereign Wealth Funds. It could be argued that the increased exploitation of unconventional oil and gas deposits might reverse this transition. However, early evidence suggests that, for example, the life span of fracked wells is a great deal shorter than previously hyped (Berman, 2012). Indeed, in the US, gas production has now levelled off after a rapid rise, despite a very much broader base of exploitation (ibid.). It might seem that this is prompted by declines in the gas price, but, in historical terms, this remains high. Accounts of potential new offshore oilfields in the south Atlantic and off Greenland have again, failed to deliver on earlier promise. What this would suggest is that although drives to exploit unconventional oil and gas resources are likely to intensify, this represents more of a stop gap measure in an inevitably long and uneven energy transition, which is likely to intensify volatility in energy prices and, indeed, the relative performance of national economies as a whole, than provide a reliable long term energy source.

### 6.3. Elites

Although we would argue that there are material bases for changes in the relative power and composition of elites, at the same time, the latter deserves consideration. The manner in which firms are governed is closely bound up with political realities (Goerevitch and Shinn, 2005).

Although Streeck (2012) has correctly ascribed much of the blame for the 2008- economic crisis on the failure of politics and elites, by the same manner, this does not fully explain why the latter has happened. As Engelen et al. (2011: p. 174) note, a feature of the present condition is the extent to which elites have been able to promote and perpetuate interests palpably at odds with the needs and concerns of majority. This reflects the extent to which conservative policy technocrats were able to build on their elite contacts to frustrate pressures towards greater market regulation (ibid.: p. 189). In turn, this has led to intensifying liberalization, heightening existing imbalances within and between economies. Priestland (2012) suggests that elites have historically been composed of three components: militarists; merchant/capitalists; and intellectuals. One or two segments will achieve relative dominance at particular times, largely because the solutions imposed by another faction have demonstratably failed or simply ceased working (ibid.). However, only intellectuals are likely to forge major cross-party coalitions, as was possible at the time of the post-WW2 settlements when capitalists and militarists were both weakened. Again, however, this somewhat circular view of history does not recognize the extent to which material and technologies circumstances may fundamentally change, which may force unprecedented policy trajectories or solutions.

## 7. Conclusions

In my earlier work with Christel Lane (Wood and Lane, 2012; Lane and Wood, 2009), we identified many of the key drivers of internal systemic diversity and change, ranging from complementarity through regionalism and sectoral dynamics. More recently, we have highlighted the importance of long energy transitions in driving systemic change (Wood and Lane, 2012). This paper adds to this analysis not only through revisiting, reviewing, and expanding on key dimensions of these issues, but also through considering related and interconnected issues salient to comparative institutional analysis. These range from the emergences of new actors, such as novel investor categories, to changes in the role of politics and elites. The changing conjuncture of temporal and spatial locale moulds not only their relative impact on specific sub-national, national and supra-national settings, but also the nature thereof.

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