

THIRTY YEARS AFTER the initiatives of Ronald Reagan and Margaret Thatcher signaled the beginning of a neo-liberal era that would usher in widespread enthusiasm for competitive markets, the world is experiencing a global recession precipitated by financial crises rooted in the excesses of unbridled competition. As a result, the neo-liberal era is at an inflection point, if not a close. Many people are reconsidering what markets can deliver and looking again to states for more assertive efforts to regulate and distribute resources. After several decades of irrational exuberance about what markets could accomplish, scholars are looking at capitalism with more sober eyes.

In this context, Wolfgang Streeck, the most brilliant analyst of the contemporary German political economy, has produced an indispensable work. It is three books in one – a discerning account of recent changes in the German economic model, a wide-ranging critique of institutionalist analysis, and a powerful interpretation of how capitalism works. Written from a profoundly sociological perspective, it offers a corrective to rationalist analyses that will be of interest, not only to scholars of Germany, but to anyone trying to understand institutional change in capitalist economies.

Drawing on research carried out under his direction at the Max-Planck Institute for the Study of Societies in Cologne, Streeck charts the unraveling over the past twenty years of the “organized capitalism” that once underpinned *Modell Deutschland*. Five short, sharp chapters trace developments in collective bargaining, intermediary organizations, corporate governance, social policy and public finance. In the decade after 1992, net trade union membership in Germany fell from 30 percent of the workforce to about 20 percent. The average tenure of chief executive officers dropped from ten years to eight and a half and, in the largest fifty firms, barely 9 percent of CEOs now have professional experience in the public sector, compared with 25 percent in 1990.

From an Anglo-American perspective, many aspects of economic relations in Germany still seem relatively “organized”. Although only 57 percent of employees were covered by an industry-wide collective agreement in 2006, down from 72 percent in 1995, those figures are still high by international standards, and the wave of hostile takeovers

* About Wolfgang STREECK, *Re-Forming the Capitalism: Institutional Change in the German Political Economy* (Oxford University Press, 2009).

predicted after the Mannesmann takeover of 2000 has failed, so far at least, to materialize. Notwithstanding the Hartz reforms of 2003-2004, social assistance to those without jobs in Germany remains relatively generous and employment protection for those in the core economy high. In some respects, the empirical focus of the book on a single country limits the precision with which broader conclusions about the development of capitalism in a neo-liberal age can be drawn.

By looking in depth across multiple spheres of a single country, however, Streeck is able to identify trends missed in many, more bloodless, statistical comparisons. Smaller firms have defected from employers associations and industry-wide agreements in order to bargain with their own works councils. Alongside a core industrial labor force, still somewhat cushioned against global recession, a dual labor market has grown up, characterized by part-time employment, little job protection, and corresponding increases in wage inequality. The focus of the large German banks has shifted from the role they once played in domestic industry to the global scene, where they are deeply enmeshed in the “financial innovations” that have wreaked havoc on so many countries. Trade unions and business associations that once had real authority over their members now exercise much less influence, as those members are increasingly tempted to defect.

Streeck argues that these developments reflect the “disorganization” of the German political economy. They are part of a process in which “[f]ragmented reorganization of cooperative relations between capital and labor at the level of the firm replaces an obligatory social order with voluntarily contracted, individualized arrangements, responding to and controlled by competitive markets” (p. 86). In the face of market pressure, firms and workers are defecting from the cooperative relationships once organized by business associations and trade unions in favor of more variegated arrangements. Streeck’s sociological analysis of liberalization emphasizes how market competition eats away at social bonds, with far-reaching consequences for the life world as well as the organization of the political economy.

Running through this account is an extended commentary on the vices of historical institutionalism. If disinclined to grant insight to what is now a rich body of work, that commentary offers institutional analysis many valuable correctives, including at least two of capital importance. As Jonas Pontusson did some years ago (*Comparative Political Studies*, 1995), Streeck urges attention to the social and material contexts in which institutions operate. Neo-institutionalism developed initially, during the 1980s, as a reaction to modernization

theories that saw politics as little more than an emanation of underlying social and material forces. Scholars brought the state back into the analysis along with the organization of labor and capital in order to show that politics is structured by more than inexorable material forces. Over time, however, some institutionalists have lost sight of the social and economic contexts in which institutions operate. Streeck reminds us with characteristic force that such contexts are not mere scenery against which the action of the play takes place but intrinsic to what institutions do.

He also draws attention to the historical specificity of institutions. On his account, the operation and effects of an institution are not unchanging over time, but conditioned by shifts in socioeconomic context and by aging processes that alter the impact of institutions over time. Therefore, we should not attribute a persistent set of effects to a particular institution, without regard for how long it has existed or multiple dimensions of the social context in which it operates. The book is highly critical of “variable sociology” and equilibrium-oriented analyses of institutions. Although Streeck’s account of this aging process is vague and the issue of how to demarcate the period in which an institution has consistent effects still open, there is something of profound importance in this point. As Kathleen Thelen has shown in *How Institutions Evolve*, the social impact of an institution shifts over time, as new actors exploit it for their purposes. Treating institutions as if they operate according to the laws of physics may well be a mistake and is unlikely to tell us much about their development, if, as Streeck argues, that development resembles more closely the pathways of biology. Putting his injunctions into practice, Streeck brings a sociological sensibility to the analysis of institutional flux in the German political economy, emphasizing that institutions are patterns that must be *enacted* rather than rules merely to be promulgated. Critical of accounts that imply coherent processes of institutional design, he shows how institutional change is generated “from below” by actors seeking new ways to exploit otherwise disadvantageous rules.

Less compelling, from my perspective, is the critique of “varieties of capitalism” approaches to the political economy that is a recurring *leitmotif* of this volume. Taken in themselves, many of the contentions Streeck makes in this context are important, if not always incontrovertible. The presence of a particular set of institutions cannot always be explained by the purposes they currently serve. Governments may not always be responsive to the demands of business, because they are also concerned about the overarching social order, and firms cannot be

counted upon to perceive their interests clearly. The differences between national economies extend beyond those captured by the distinction between liberal and coordinated market economies. The durability of institutions cannot be explained entirely by their complementarities with other institutions. These are significant propositions, but none are ones denied by the varieties of capitalism literature with which I am familiar, and most of the views Streeck attributes to that approach reflect a crude caricature rather than a close reading of the relevant literature.

That is deliberate. Streeck spends the better part of a page (pp. 19-20), explaining that he is not going to engage with the subtleties of the varieties of capitalism literature on the grounds that the latter are simply concessions designed to save the approach from its critics but, in so doing, he constructs a windmill of his own at which to tilt. The result is a missed opportunity to engage with significant issues about which there could be fruitful controversy, bearing on the influence business interests exercise over public policy, the value of seeing relationships in the German political economy as ones of strategic coordination, the differences between the German and other political economies, and the role of politics in the construction, and reconstruction, of the social and economic order. Instead, we get an analysis that is colorful because it is painted with such broad strokes, and certainly provocative, but at best indicative, rather than dispositive, when it comes to resolving the thornier issues of how the trajectory of institutional change in one sphere of the political economy influences change in other spheres, how developments in the international economy affect those in domestic political economies, and how the institutional complexion of the political system conditions developments in the economy. If this book is to be influential, as it deserves to be, Streeck will have to count on its being read with more care and empathy than he accords the literatures against which he pitches it.

The great power of this book lies elsewhere, however, in the vision of capitalism Streeck propounds, which, if rooted in classic views, has serious import and no contemporary peer. Eschewing the term “political economy” for its limiting emphasis on institutions, Streeck insists that we live under capitalism and must see capitalism as a historical social order marked by continuous conflict between the opportunistic behavior mandated by markets and the normative obligations that hold society together. He insists on seeing capitalism in historical terms because the balance between these competing forces shifts over time, as it has in Germany, lending a distinctive cast to the

operation and effects of capitalism in specific times and places. Drawing on Schumpeter, Streeck sees the economy as an arena for ceaseless innovation, prone to cycles of institutional destruction driven by the creative power of entrepreneurial actors operating under the pressures of market competition. Institutional rules are fragile because, for those actors, they are little more than vehicles to be exploited for their own gain.

If Schumpeter outlines the challenge, however, Durkheim specifies the stakes. Whatever efficiencies it might supply, market competition is corrosive of the normative order governing social relations, whether in transactions between business associations and trade unions, between a firm and its employees, or within the family. The significance of the liberalization of markets characteristic of our era lies, then, in its transformative impact on the social order, which has upset long-standing understandings about social justice in wage-setting, abetted changes in the structure of the family, and eroded the social protections governments once supplied their citizens. In the trajectory of the German political economy, Streeck sees a set of institutions that have become over time less Durkheimian and more Williamsonian, as concerns about social solidarity give way to a drive for efficiency. From this perspective, analyses of the political economy couched largely in efficiency terms cannot even comprehend the most consequential dimensions of the recent development of capitalism.

It is here that Streeck's critique of the literature on varieties of capitalism has value. Although far from the overweening functionalist enterprise that he makes it out to be, that literature emphasizes the ways in which firms' drives for efficiency, workers' struggles for higher wages, and politicians' efforts to secure reelection reinforce or undermine particular sets of institutions. In these respects, its portrait is not at great variance with Streeck's image of how actors operate under capitalism. But the literature on comparative capitalism pays too little attention to what might be described as the sociological underlay of the political economy and to the impact of capitalism on social relations. If they want to take up such issues, analysts will have to develop a greater appreciation for unintended consequences and move beyond efficiency-oriented explanations of institutional development.

This book does not tell us precisely how to do so, but, in addition to a profound diagnosis of developments in Germany, it offers something of a problematic for considering the development of capitalism itself. As Streeck notes, there are many loose ends in the analysis. The book reads like a jeremiad, breathtaking in its sweep, telling in the detail it

marshals to back up the argument, alternately gloomy in its prognostics and exhilarating for the insight of its analysis. It is a worthy successor to Polanyi's account of the great transformation. However, taking up the problematic to which it introduces us requires investigation into a wide range of issues currently left open.

Most puzzling from my point of view is the problem of explaining why German capitalism, in tandem with certain others, should have become "organized" in the post-war years only to experience "disorganization" in the 1980s and 1990s. The dynamic tension between creative opportunism and social norms at the heart of Streeck's account of capitalism is presented as a timeless one. Indeed, that is precisely why analysts of the political economy neglect the imperatives of "capitalism" at their peril. Streeck makes a convincing case that reunification did not set Germany down this path. In similar terms, he portrays the impotence of the German state, issuing in a spiral toward fiscal exhaustion, as a consequence rather than a cause of these developments. His argument that institutions experience entropy as they age captures something about the relevant dynamics but does not say much about the timing or direction of such developments. We are left wondering if there are limits to the disorganization of the political economy and whether economies that have become disorganized can become organized again. On such points, the book is, to my mind, overly agnostic.

To resolve such issues, we may have to look more closely at politics than Streeck is willing to do. He describes political scientists as being "at risk of overestimating the significance of politics" (pp. 254-255) which no doubt they are. But, alongside the story told here of inexorable institutional decay under the systemic imperatives of capitalism lies another about electoral de-alignment, as social democracy loses its historic mission to rising prosperity and generational change, and about discursive transformation, as governments react to the Eurosclerosis of the 1970s. Although governments cannot establish normative orders by decree, they may contribute more to the durability of institutions than Streeck concedes, and the moral visions articulated by political leaders are surely constitutive of such orders. German capitalism may have been "disorganized" from below but the conditions that made this possible may be as political as they are economic.

One of the contributions of the book is to invite us to ask such questions even if it does not answer them.

By insisting that the political economy is a historical product of the evolution of capitalism, Streeck gives us, not only a richer basis for

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institutional analysis, but a foothold from which to understand the origins of our present discontents. Not without reason, the underlying viewpoint is a grim one – of social integration under constant challenge from market forces. Out of this somewhat gloomy dialectic, however, emerges a vision of the social order as something worth defending that might be used to reorient our politics as well as our scholarship. And just in time.

P E T E R A . H A L L