

BOOK REVIEW

Wren, Anne, (ed.): *The Political Economy of the Service Transition*, Oxford: Oxford University Press, 2013, 354 pp., £27.99 (paperback), ISBN 978-0-19-965729-2

Thelen, Kathleen: *Varieties of Liberalization and the New Politics of Social Solidarity*, New York: Cambridge University Press, 2014, 282 pp., \$22.99 (paperback), ISBN 978-1-107-67956-6

Since *Varieties of Capitalism: The Institutional Foundations of Comparative Advantage* was published by Hall and Soskice (2001), it has triggered a highly fruitful if at times controversial debate about institutions, complementarities and path dependency. Questions have been asked about its apparent functionalist leanings and whether different countries can be ordered alongside a dichotomy of liberal and coordinated market economies (CMEs). However, there is little doubt that the book marked a watershed in the discipline of comparative political economy. It put centre stage the issue of capitalist diversity and provided the heuristic tools for a growing body of research on different national models of capitalism and institutional change. Two more recent books are testimony to this.

One of the criticisms that have been levelled against the ‘Varieties of Capitalism’ (VoC) approach is that it is too much focused on industrial manufacturing and does not pay sufficient attention to the service economy. *The Political Economy of the Service Transition* seeks to rectify this gap. The editor Anne Wren has assembled an impressive range of authors mainly from the disciplines of political science and political economy, including some of the original contributors of the VoC book. The first part of the book is dedicated to the institutional underpinnings of the move towards a ‘post-industrial’ society, including chapters on employment creation, inequality, women’s employment, vocational training and higher education. The second part of the book is concerned with the political impact of the ‘service transition’, including chapters on deindustrialisation and the welfare state, the expansion of service employment and political preferences, working time and the political economy of gender.

In the quite ambitious introductory chapter, Wren outlines the main arguments of the book which will be discussed here in more detail. She

convincingly argues that conventional economic approaches have failed to account for cross-national variation in service sector employment. Why, for instance, is less-skilled employment more widespread in private services in the USA, whereas it is more widespread in the public sector in Sweden? Here a political economy approach that takes seriously the role of institutions, economic traditions and political coalitions is more fruitful to capture the different trajectories of the 'service transition'. Further, traditional economic approaches, most famously Baumol's 'cost disease' problem, mainly focused on low-productivity services. However, as pointed out by Wren, through the diffusion of information and communication technology, the capacity for productivity growth in services (and, it might be added, industrial manufacturing too) has substantially increased.

While the introductory chapter is impressive in terms of its scope and range, it has some shortcomings. First, there is a normative bias towards service sector employment. It is of course true that the majority of people in advanced industrial economies are now employed in services and much of future job creation is likely to occur here. However, as argued by Castells (2000), among others, industrial manufacturing continues to be critical to the productivity and 'competitiveness' of 'post-industrial' societies. Many of the 'dynamic services' that Wren talks about depend on their direct linkages to industrial manufacturing. Certainly, the lesson that many policy-makers seem to be drawing from the recent economic crisis is that in the light of financial turbulences and property bubbles, industrial manufacturing, especially its high-tech variant, might promise (again) a more sustainable future; witness, for instance, the recent reindustrialisation agenda of the EU. Needless to say, scholars in the comparative political economy tradition would point to the difficulty of such an endeavour in the absence of a proper supporting institutional environment. Still, it is by no means certain that industrial manufacturing had its days in the advanced economic countries.

Further, Wren's conceptualization of low-skilled services as 'non-traded and sheltered' (51) remains trapped in conventional economic thinking and does not take into account the emergence of transnational labour markets especially in the EU. While it might be true that these services are 'non-tradable' to the extent that they are locally bound, certainly the workforce in these sectors are far from 'sheltered'. It is no coincidence that it is precisely low-wage sectors such as cleaning and hospitality which have experienced large-scale inward migration in the context of recent EU enlargement. Arguably, growing cross-border mobility in service provision can be a functional equivalent to the 'offshoring' of parts of production from the perspective of employers in terms of aspiring for greater flexibility and cost reduction. However, the consequences of the transnationalisation of labour markets are not further explored in the book.

Moreover, some of the analysis especially in relation to Germany, often regarded as the paradigmatic case of a CMEs is outdated. It is true that Germany was traditionally a country where service sector employment remained underdeveloped. However, profound socio-economic changes in the last 15 years have fundamentally transformed the labour market situation in the country. Wren's claim that employment rates 'remain low compared with many of the other advanced economies' (63) might have been a fitting description for the 1990s but not anymore. In the context of labour market reforms ('Hartz-Reformen'), employment rates have substantially increased and even pre-crisis had reached levels of liberal market economies (LMEs). In 2013, Germany had the second highest employment rate in the EU after Sweden.

This quite remarkable turnaround of the labour market came at a price, however. Much of recent employment growth occurred in low-wage services, where the traditional institutions of a CME failed to take hold and where unions are largely absent. Whereas Wren continues to see 'relative high levels of wage equality' (39) in CMEs, Germany by now has in fact one of the largest low-wage sectors in Europe. Apparently, coordination and equality no longer necessarily go together.

This is a topic which is developed in more detail by Thelen in *Varieties of Liberalization and the New Politics of Social Solidarity*. Traditionally, LMEs were associated with higher levels of inequality, whereas the institutions of CMEs were seen as guaranteeing higher levels of social solidarity. Thelen questions this conventional wisdom by moving beyond the usual dichotomy of liberal and coordinated market economies. Instead, she distinguishes between three different 'trajectories of liberalization': 'deregulatory liberalization' commonly associated with the USA, 'dualizing liberalization' found in continental countries such as Germany and 'embedded flexibilization' linked to Scandinavian countries such as Denmark.

Whereas embedded flexibilisation involves continuing high levels of equality, deregulatory liberalisation usually goes hand in hand with a sharp rise in inequality. However, even countries such as Germany that were traditionally associated with relatively low income dispersion have seen rising inequality in the context of dualisation in spite of, or perhaps just because of continuing strategic coordination especially in the manufacturing sector. It is here where she most departs from the original VoC approach by arguing that 'not every coordination-preserving move has solidarity-enhancing effects ... not every liberalizing move compromises social solidarity' (4).

She develops this argument by examining contemporary change in three areas of the political economy (industrial relations, vocational education and training (VET) and labour market policy) in Denmark, Germany and the USA with complimentary discussion of the Netherlands and Sweden. As

regards industrial relations, she finds a ‘textbook case of deregulatory liberalization’ (36) in the USA where the influence of unions has sharply declined and the institutions of collective bargaining have largely collapsed. In turn, in countries such as Germany, cooperation between employers and trade unions has even intensified in the export-orientated manufacturing sector, largely in line with VoC logic. However, outside the industrial core of the German political economy, the institutions of social partnership have largely failed to take hold. As a consequence, collective bargaining coverage has declined especially in private services where union and employer organisation is low, fostering dualising tendencies. In Denmark, there has been somewhat of a reverse development. While formal bargaining institutions have been decentralised as part of a process of liberalisation, bargaining coverage and union density remains high (although her claim of a ‘nearly uniform increase in union density in Scandinavia’ (35) is misleading as union density has in fact declined in the last 20 years). Further, what has emerged in Denmark is a kind of a supply-side corporatism that has taken up issues such as training and parental leave in the light of its distinctive ‘flexicurity’ concept.

This becomes especially visible in relation to VET where the Danish state has succeeded in breaking down traditional barriers between initial and continuing vocational education as part of a more inclusive system that offers training opportunities for lower skilled and higher skilled workers alike. In Germany, firms especially in manufacturing continue to offer high-quality training opportunities. However, there is a growing number of young people from a lower educational background who no longer manage to secure a promising apprenticeship place and are ‘parked’ in a second-rate, publicly funded ‘transition system’. In the USA, VET as such remains seriously underdeveloped as it lacks a proper infrastructure. Instead, the emphasis is on a ‘college for all’ strategy which, in the absence of a supportive structure, reinforces socio-economic inequalities.

When discussing labour market policy, Thelen distinguishes between active labour market policies (ALMPs) and short-time work (STW) policies. Whereas the former addresses structural unemployment and is more orientated towards labour market outsiders, the latter is usually deployed in response to cyclical unemployment and has more of a focus on labour market insiders. Less surprisingly, Denmark in the light of its flexicurity concept has one of the highest expenditure on ALMPs among advanced capitalist countries. In turn, continental countries such as Germany have a higher expenditure on STW schemes which has to be seen in the context of its hugely influential manufacturing sector. The USA, again, is a laggard in almost all aspects of labour market expenditure.

What for the future of egalitarian capitalism? Thelen argues that employer coordination continues to remain a necessary if insufficient

condition to maintain high levels of social solidarity. Even more important is the role of unions as ‘weakness and fragmentation on the labor side are devastating to egalitarian capitalism’ (204). Further, the role of the state is crucial in providing a framework for union–employer cooperation and for mediating the impact of liberalisation especially through social investment policies. Ultimately, the success of a more egalitarian form of capitalism will depend on forging new alliances among new and old constituencies and interests in ‘post-industrial’ labour markets and to reconfigure the institutions of different ‘varieties of capitalism’ to meet the new challenges and risks of global capitalism in the twenty-first century.

Thelen has written a highly readable and original book that persuasively argues that contemporary trends towards liberalisation do not lead to a uniform convergence alongside an ‘Anglo-Saxon-model’. By disentangling the concepts of coordinated and egalitarian capitalism, she has put distributional questions centre stage and as such has made a valuable contribution to the VoC debate. However, as the book is on ‘different trajectories of liberalisation’ with a strong focus on European societies, it is somewhat surprising that the role of the EU, arguably an important actor in promoting a liberalisation agenda, is hardly ever mentioned at all.

This omission of the supranational dimension is indicative of the VoC tradition which is, after all, a comparison of national societies. Hence, future VoC research needs to be more alive to the transnationalisation of product and labour markets. This challenge is especially pertinent in the enlarged European Union where growing cross-border mobility by capital and labour, supranational regulations and European Court of Justice case law increasingly transcend the nation-state. What is of particular interest from a VoC perspective is whether different models of capitalism, especially the social market economies of Continental Europe and Scandinavia, are compatible with the liberalising logic of the European integration process. There is little doubt that the Varieties of Capitalism approach, arguably one of the most original research traditions in the field of comparative political economy, has a lot to contribute to this debate.

References

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