
Welfare States and their Inequality as a Result of Cultural Differences instead of Varieties of Capitalism

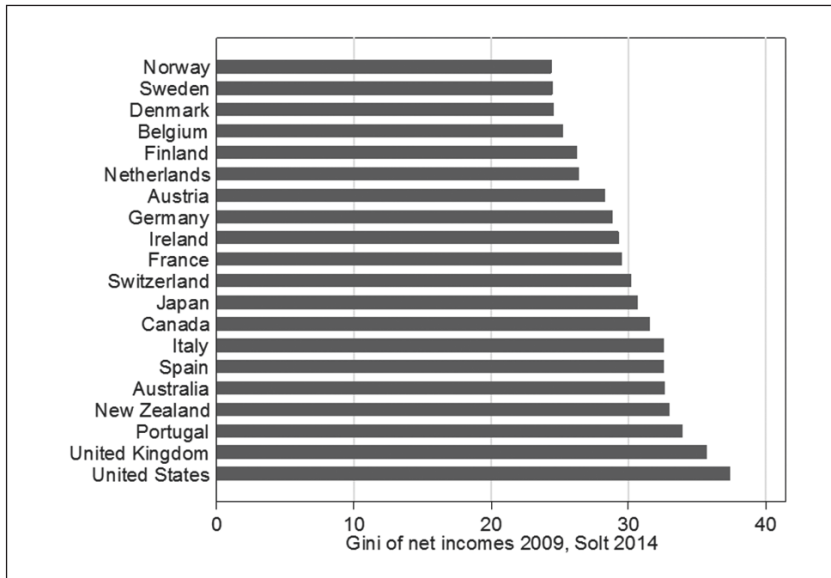
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Introduction

Why do some developed countries have more social inequality than others? Since Esping-Andersen's (1990) seminal work, it is widely accepted that some countries have more inequality than others because of their welfare regime (Brady, 2009; Brady/Sosnaud, 2010). Notably, Scandinavian countries with "social democratic", so-called universal welfare states have very little inequality. Continental European countries with "conservative" welfare states have a medium degree of inequality and English-speaking countries with "liberal" welfare states have the highest degrees of inequality (Esping-Andersen, 1990; 1996; Schröder, 2009; 2013; Thelen, 2012; 2014). The following figure shows that this is the case when measuring inequality through the Gini of net household inequality.¹

One can see how the four Scandinavian countries with social democratic welfare states have the lowest inequality, while English-speaking countries with liberal welfare states tend to have the highest inequalities and Continental European countries with conservative welfare states tend to be in between. But by stating that different types of welfare states explain that countries have more or less inequality, the question then becomes why countries have developed welfare states that permit more or less inequality? In other words, why do countries group into these different types of welfare regimes in the first place, giving rise to the associated different types of social inequality?

1 In its quantitative analysis, this chapter uses all countries that are liberal, mixed or coordinated according to the Hall and Soskice (2001) typology, minus countries for which data is lacking. This leaves twenty countries for analysis: Australia, Canada, Ireland, New Zealand, the United Kingdom and the United States (liberal); France, Italy, Portugal, Spain (ambiguous) and Austria, Belgium, Denmark, Finland, Germany, Japan, the Netherlands, Norway, Sweden and Switzerland (coordinated).

Figure I Net household income inequality, measured by the Gini

Hall and Soskice (2001b) gave a compelling reason why English-speaking countries tend to favour market transactions, while Scandinavian and European countries are less prone to favour market exchange, so that they developed stronger welfare states with less inequality. Hall and Soskice argue that English-speaking countries are favourably disposed toward market arrangements, even when these bring more inequality, because the flexibility of market arrangements allows companies in these countries to excel in radical product innovation. Hall and Soskice label other developed countries as coordinated. These have a more developed welfare state and less inequality, since stronger welfare states allegedly allow companies in these countries to enter into strategic long-term cooperation, making them unrivalled in incremental product innovations by encouraging a long-term view of labour relations and company financing.

This led some scholars to argue that types of welfare states and the differing degrees of inequality that they bring can be explained by the institutions that countries use to grant their companies a competitive advantage (Estevez-Abe/Iversen/Soskice, 2001; Iversen/Soskice, 2006; Iversen/Soskice, 2009; Iversen/Wren, 1998; Soskice, 1999; Soskice/Iversen, 2001). This chapter will therefore show two aspects. First, it shows that the financial systems, industrial relations, workplace coopera-

tion, welfare states and patents of different countries still indicate that countries essentially group into a liberal market-prone variety of capitalism, with more inequality, and a non-liberal variety of capitalism, with less inequality (Hall/Soskice, 2001a). However, contrary to what varieties of capitalism expects, this chapter also shows that competitive advantage in radical and incremental innovations does not explain why developed countries come in a liberal and a coordinated variety and thus with more or less inequality. Instead, this chapter shows that widespread normative views on the legitimacy of markets vary between types of welfare states.

Cross-sectional data cannot settle whether cultural orientations support capitalist differences or vice versa. This chapter therefore expands on the historical institutionalist literature on welfare states, to argue that societies strongly influenced by Calvinism historically shared a belief in individualistic liberalism. Such liberal beliefs not only influenced how English-speaking societies regulated their economy, but also their welfare state, thus influencing how much inequality they allow. Catholicism influenced a second group of countries, which developed strong solidarity *within* social groups, but weak solidarity *between* them. This not only promoted a conservative welfare state – that built on and stabilized existing social groups; it also promoted a group-coordinated production system. Third, countries influenced by Lutheranism shared a strong feeling of national solidarity, which not only supported a nationally universal welfare state, but national economic coordination as well, which later declined to the sectoral level and is now similar to countries that started with group-based coordination.

The central argument of this chapter is thus that different types of welfare states and inequality exist because varieties of capitalism are rooted in long-term cultural values, which lead to enduring policy styles, according to which either liberalism or market-constraints are widely seen as legitimate. The following section starts by using current data to document that there are still two varieties of capitalism; It then asks what these varieties come along with – showing that they co-vary with cultural values that also stand behind welfare states. The last section then highlights the historical emergence and persistence of these cultural values as a background of welfare states and social inequality.

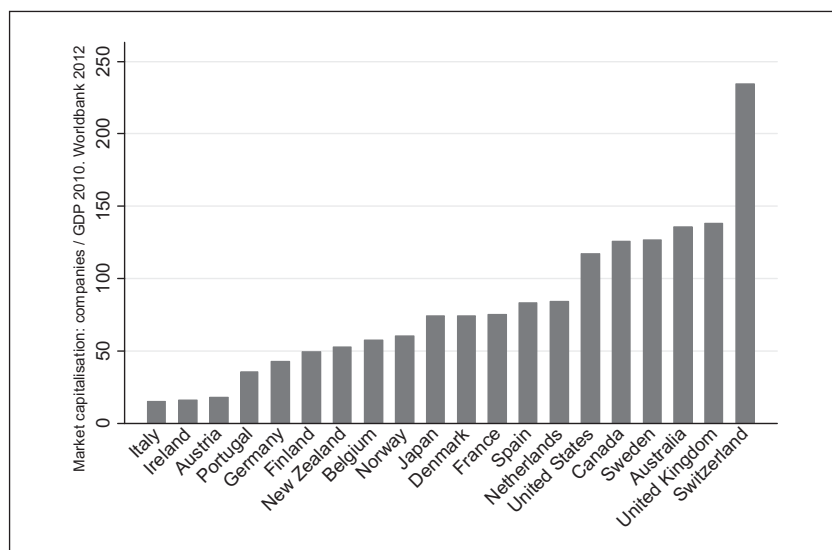
The resilience of varieties of capitalism

In 2001, Hall and Soskice proposed to differentiate so-called liberal market economies from coordinated market economies. Liberal market economies are the United States, Great Britain, Canada, New Zealand, Australia and Ireland. Coordinated market economies are Germany, Japan, Switzerland, the Netherlands, Belgium, Sweden, Norway, Denmark, Finland and Austria (Hall/Soskice, 2001a:

19 ff.). Hall and Soskice argued that companies in liberal market economies are very good at inventing entirely new products. This is because in these countries, nothing impedes companies from acting quickly. Flexible labour markets make it possible to hire and fire workers, short-term capital markets make it easy to raise funding for new ideas, and shareholder value-oriented corporate governance makes it possible to adjust company strategies quickly without having to negotiate this with employees. Contrary to this, companies (in mostly European countries) with so-called “coordinated” economic institutions excel at improving existing products with a longer time horizon because they can rely on long-term cooperation with their workforce due to an inflexible labour market, long-term capital from banks and a stakeholder based model of corporate governance in which employees co-determine company strategy. For the topic of inequality, it is most important that liberal countries have more inequality than coordinated countries. As Figure I shows, liberal countries such as the United States, the United Kingdom, New Zealand and Australia are among those with the highest inequality. At the same time, the coordinated countries of Norway, Sweden, Denmark, Belgium, Finland, the Netherlands, Austria and Germany have the least inequality.

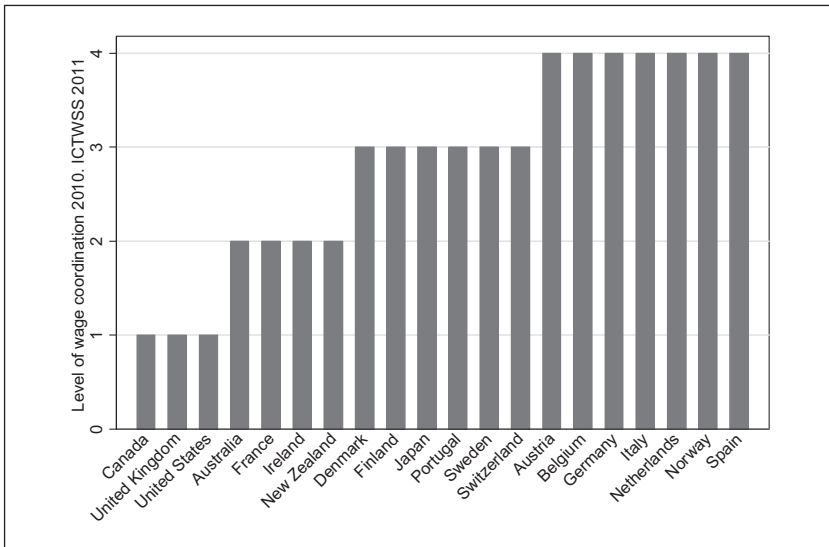
But why is it that not only liberal welfare states, but also countries with liberal economies have more inequality? In the following, I will first show that countries indeed still group into a variety with liberal institutions and another variety with coordinated economic institutions, much as Hall and Soskice have suggested in 2001. I will then show that different religious cultures explains both where these institutions come from, but also that they influenced how much inequality these countries allow and how much they try to change it through their welfare state. This section starts by looking at the most important institutional fields that should differentiate liberal and coordinated market economies. Financial systems, industrial relations, workplace relations and the welfare state should be different in the two country regimes (cf. Hall/Soskice, 2001a: 6 f.).² According to the varieties of capitalism-typology, stock markets should be more important in liberal countries, as companies in coordinated countries rely on bank loans, not on the stock market. However, the data that the varieties of capitalism typology used to draw this distinction is from the 1990s (Hall/Soskice, 2001a: 19). The following figure uses more recent data and plots how much a country’s stock-noted companies are worth, relative to the country’s GDP. This gives an estimate of how important the stock market is in different countries.

2 As there are no reliable quantitative measures for vocational training systems and company cooperation, these are left aside, even though they are part of the Varieties of Capitalism-typology.

Figure II Market capitalization of stock-noted companies relative to GDP

Four countries in which stock companies are worth the most in relation to their country's GDP are liberal, two exceptions to this are Switzerland and Sweden, which also have a high market capitalization. New Zealand is in the lower half however and Ireland is even second last, so that there is no bivariate relationship between liberalism and market capitalization. Data from before the financial crisis 2008 show similar results. A second important aspect that should distinguish liberal and conservative countries are relations between capital and labour. Varieties of capitalism sees individual wage bargaining as typical for liberal countries, and collective bargaining as typical for coordinated countries. The ICTWSS (Institutional Characteristics of Trade Unions, Wage Setting, State Intervention and Social Pacts) database differentiates four levels of bargaining to check this: sectoral bargaining with national pattern setting (level 4), sectoral bargaining with no national pattern setting (level 3), sectoral bargaining with company-based pattern setting (level 2) and fragmented, company-level bargaining (level 1). While the data used by Hall and Soskice (2001a: 59) ends in 1992, the following figure shows which of these bargaining levels dominated in the different countries in 2010.

Every country with fragmented wage bargaining (level 1) is liberal. In other liberal countries (and in France), sectoral bargaining merely complements com-

Figure III Dominant level of wage bargaining

pany bargaining. Contrary to this, no liberal country has mostly sector wide wage bargaining, while all coordinated countries have sector wide bargaining, with or without national pattern setting. The correlation between the bargaining level and a dummy for liberalism is very strong ($r = -.83$, $p < .01$). However, while wage negotiations might be formally encompassing, they could cover fewer and fewer workers, even in coordinated countries. Therefore, the following Figure IV shows the percentage of employees covered by collective wage bargaining in 2010.

Together with Japan and Switzerland, liberal countries have the fewest workers that are covered by collective wage bargaining ($r = -.66$, $p < .01$). Looking at labour relations, Hall and Soskice's distinction between liberal and coordinated countries thus holds, even when using new data. To distinguish between liberal and coordinated corporate governance systems, Hall and Soskice (cf. 2001a: 25) check whether management unilaterally decides on company strategy (liberal capitalisms) or has to negotiate with employee representatives (coordinated capitalisms). Again, Hall and Soskice looked at data from the 1990s and earlier. The following Figure V uses recent data from the ICTWSS database, distinguishing whether works councils codetermine economic and social management decisions (level 3), only have to be *consulted* on both (level 2), only have to be consulted concerning social decisions (level 1) or have no rights at all (level 0).

Figure IV Coverage with collective trade agreements

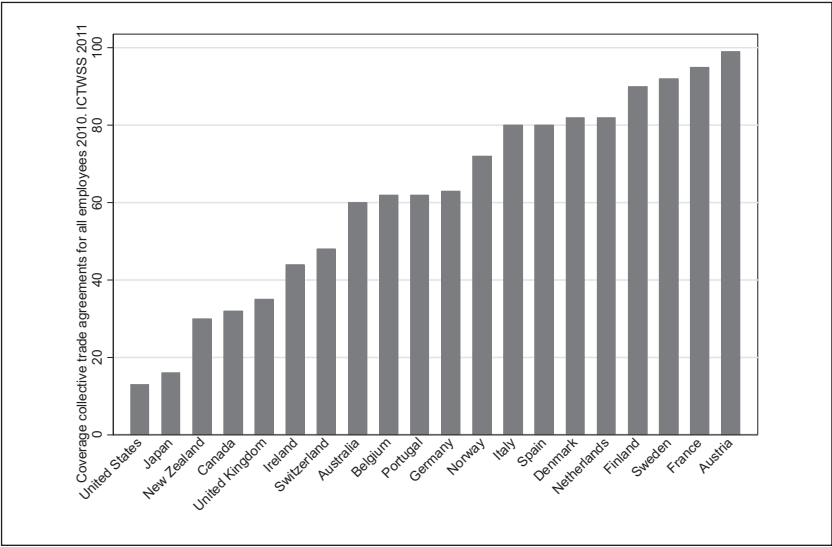


Figure V Works council rights

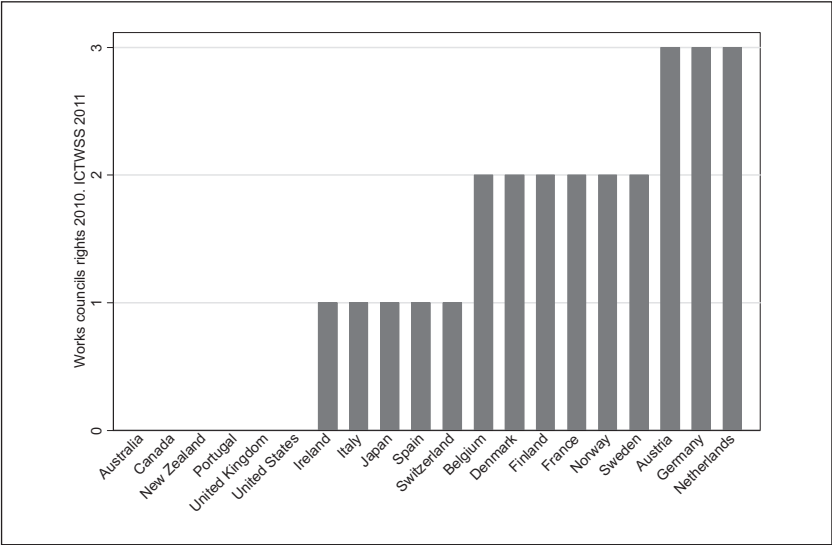
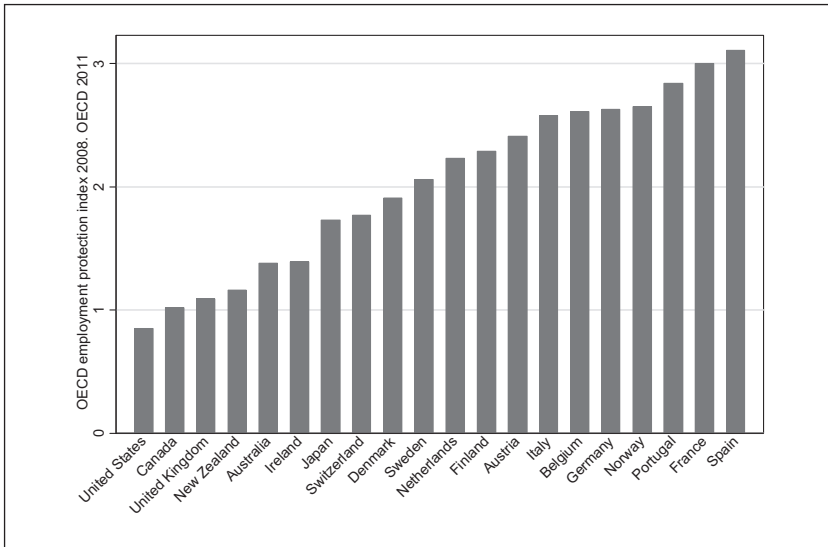
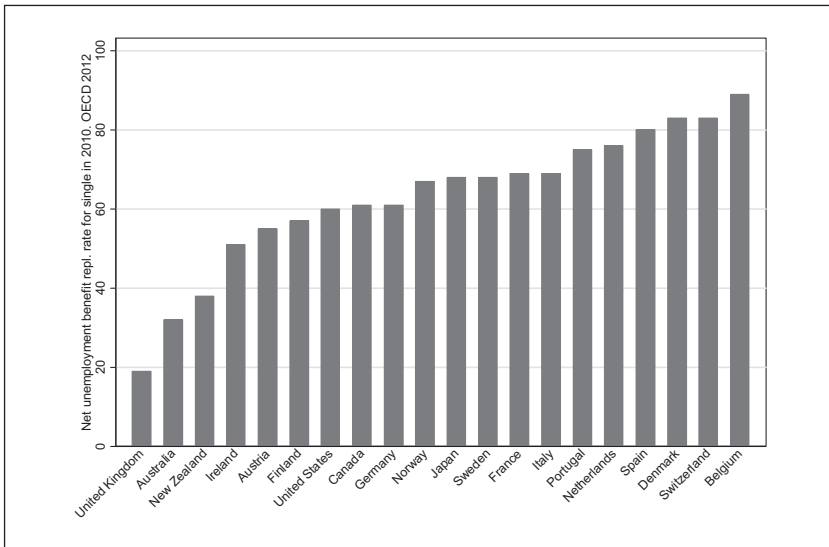


Figure VI Employment protection

All countries where works councils have no rights are liberal – plus Portugal. Ireland, in turn, is the only liberal country where works councils have to be consulted. Again, the relationship between works council power and a dummy for liberalism is therefore very strong ($r = -.70$, $p < .01$). A last aspect where liberal and non-liberal countries should differ is their welfare state. Liberal countries rely on a flexible labour force, so employment protection should be low (Hall/Soskice, 2001a: 19). Coordinated countries rely on long-term cooperation with employees and invest in company-specific skills, so employment protection should be high, to safeguard long-term cooperation between a stable workforce and management. Again, varieties of capitalism drew this distinction with data from the mid-1990s and earlier (Estevez-Abe/Iversen/Soskice, 2001: 165). Using more recent data, the preceding Figure VI therefore plots the 2008 OECD employment protection index for the different countries.

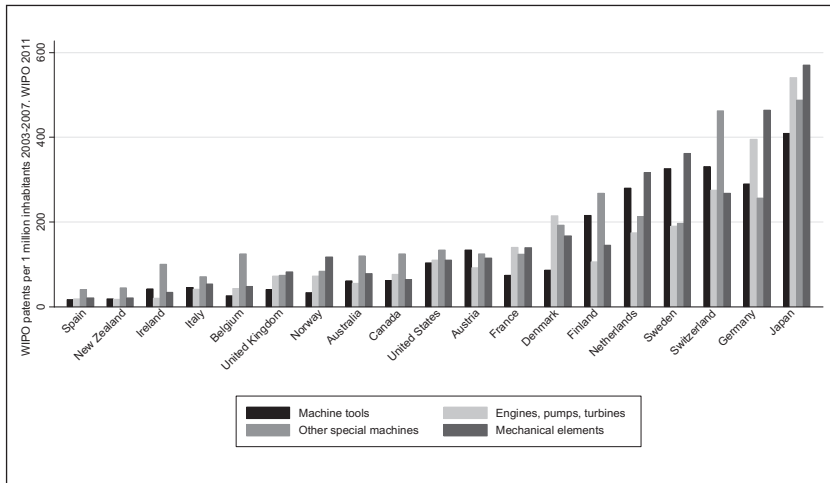
Without exception, the six liberal countries have the lowest employment protection ($r = -.84$, $p < .01$). Relying on company- or industry-specific skills, coordinated countries should also have more generous unemployment compensation to ensure workers against job loss (Hall/Soskice, 2001a: 17, 50 f.). Again, however, the data that varieties of capitalism relied on to differentiate coordinated and liberal countries, is by now very old (Estevez-Abe/Iversen/Soskice, 2001: 168). By

Figure VII Generosity of unemployment compensation

plotting what percentage of an average worker's wage unemployment compensation replaces in the first year of unemployment, the preceding Figure VII shows the generosity of each system in 2010.

Those countries with the lowest unemployment compensation are liberal, with the exception of Austria and Finland. This again gives rise to a significant correlation between a dummy for liberalism and unemployment compensation ($r = -.74$, $p < .01$). Thus, while scholars rightly caution that the varieties-approach does not *always* get the picture right, it does get most of the picture right most of the time in terms of institutional arrangements that differentiate whether countries are more or less prone to market arrangements.

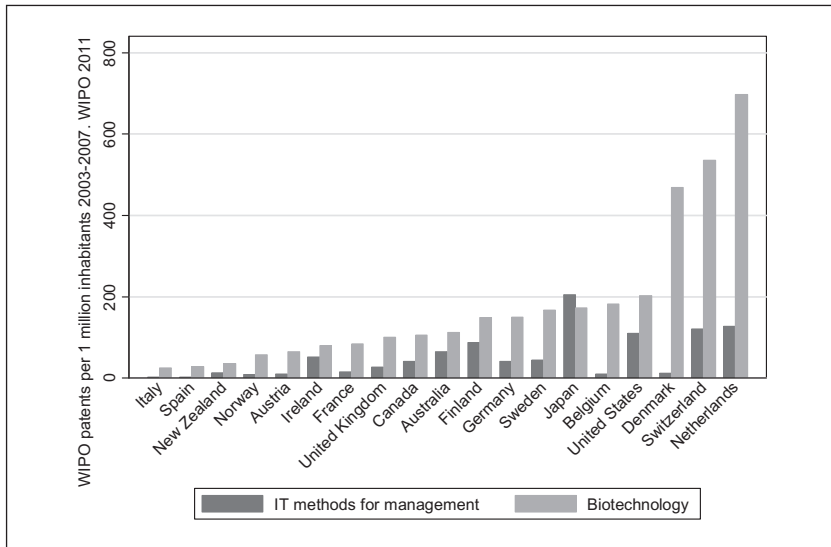
However, while specific economic *institutions* come along with coordinated and liberal countries, do these also connect to economic outcomes? Varieties of capitalism argues that coordinated countries are innovative in established economic sectors, where incremental innovations prevail. Liberal countries are said to innovate in new industries, where radical innovations are assumed to prevail. But the data, based on which the varieties-typology drew this distinction, ends in 1994, focuses only on Germany and the US, and comes exclusively from the European Patent Office (Hall/Soskice, 2001a: 42f.). To check whether more encompassing patent data still shows that countries with more market arrangements are

Figure VIII Patents in established industries

better in radical innovation, while countries with arrangements that allow for strategic cooperation are better in incremental innovation, the Figure VIII above uses patent data from the World Intellectual Property Organization for the technology classes that resemble Hall and Soskice's traditional industries. It plots a country's patents per one million inhabitants in the fields of: machine tools; engines, pumps and turbines; other special machines and mechanical elements. Coordinated countries should be more innovative in these established industries (Hall/Soskice, 2001a: 42f.).

Figure VIII does not seem to indicate however, that liberal countries, with more market-prone arrangements, are better in new industries, while countries with more coordinated arrangements are more innovative in established industries. The picture becomes even more troubling when looking at sectors where liberal countries should be successful according to the varieties-typology. The two sectors that most resemble industries of radical innovation are biotechnology and IT methods for management (cf. Hall/Soskice, 2001a: 42). The following figure plots patents in these fields per one million inhabitants in the different countries.

The liberal countries actually have few patents in sectors where they are supposed to be very competitive. A dummy for liberalism is even negatively – if insignificantly – related to patents in these two relatively new industries. Possibly, liberal countries generally have fewer patents, but are relatively less disadvantaged in newer industries, which is after all the idea of a comparative advantage. To test

Figure IX Patents in new industries

this, I calculated the average number of patents that each country has in the four traditional industries and in the two new industries. I subtracted from this the average number of patents that each country has in all technological fields which the WIPO classification discerns, calculating comparative, instead of absolute advantage. However, even then, the predictions of the varieties-typology do not hold ($r = .42$ for IT methods and $.17$ for biotechnology, both insignificant at $.05$ -level). Liberal countries are weak in established, but also not particularly strong in new industries, contrary to the varieties-of-capitalism predictions. While the distinction into liberal and coordinated countries thus works well in terms of institutions, it is unable to explain economic outcomes, in this case patents (also cf. Taylor, 2004). It thus seems unlikely that countries use market-prone arrangements because these lead to innovativeness in new industries.

Another central idea of varieties of capitalism is that the different institutional subfields do not exist in isolation, but are coherent within each type of capitalism, leading to complementary institutions (Crouch/Schröder/Voelzkow, 2009; Hall/Soskice, 2001a: 17 ff.; Höpner, 2005). If varieties of capitalism is right, then it should be possible to cluster countries into regimes, based on the indicators used above. To check for this, I performed a factor analysis that includes the institutional and patent data used above. This yields two factors with an eigenvalue

Table I Two factors from factor analysis

Variable	Factor1	Factor2	Uniqueness
Market capitalization	0.2502	-0.5545	0.6299
Coverage collective trade agreements	0.0193	0.8446	0.2863
Bargaining level	0.3511	0.8026	0.2325
Works council power	0.4570	0.7893	0.1682
Employment protection	0.1626	0.9084	0.1484
Unemployment compensation	0.4430	0.4808	0.5726
Patents: IT management	0.7248	-0.5086	0.2160
Patents: biotechnology	0.6111	-0.0458	0.6245
Patents: machine tools	0.9460	-0.1022	0.0947
Patents: engines, pumps, turbines	0.8986	-0.1423	0.1723
Patents: mechanical elements	0.9230	-0.0496	0.1456
Patents: Other specialized machines	0.9183	-0.2329	0.1025

above 1.0.³ Strikingly, the first factor loads positively on *all* patents, drawing a distinction between countries that have many patents in incremental *and* radical industries, compared to countries with few patents in both fields. The second factor is unrelated to factor one and takes larger values for a weak stock market, organized industrial relations, works council power and employment protection. It thus mirrors whether countries have coordinated institutions and indicates that all institutional measures for coordination correlate with each other (except unemployment compensation). The preceding Table I shows how the factors load on the different variables (loadings are highlighted for values larger than .5).

Because the first factor correlates positively with *all* patents, it indicates that one has to distinguish between countries that are *generally* strong in patents versus countries that are generally weak. Thus, concerning patents, the varieties typology is incorrect. Tellingly, the factor for patents is uncorrelated to institutional variables that mirror coordinated and liberal production systems. The second factor loads on the institutional variables that go along with liberal and coordinated production systems. Plotting the value that countries have in this factor, one would therefore expect that countries clearly group into liberal and coordinated

3 I rotated the factors using orthogonal varimax rotation, which hardly changed them however. Note that Portugal is excluded, as it lacks patent data.

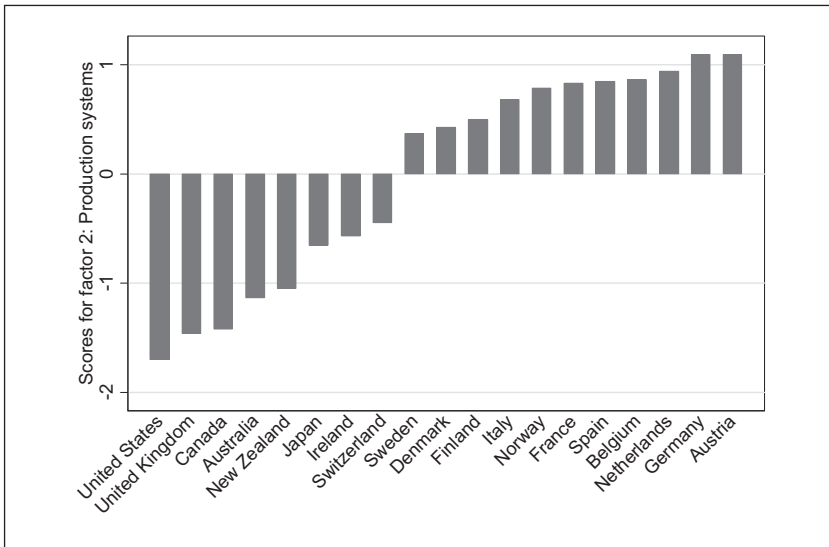
Table II Factors for patents and coordination

Country	Factor 1: Patents	Factor 2: Coordination
Australia	-.487	-1.131
Austria	-.616	1.094
Belgium	-.606	.862
Canada	-.412	-1.420
Denmark	.170	.427
Finland	.240	.498
France	-.441	.831
Germany	1.033	1.093
Ireland	-.703	-.569
Italy	-.884	.681
Japan	2.494	-.656
Netherlands	1.091	.941
New Zealand	-.937	-1.048
Norway	-.721	.787
Portugal		
Spain	-1.054	.845
Sweden	.695	.369
Switzerland	1.805	-.445
United Kingdom	-.623	-1.464
United States	-.0422	-1.696

ones. The following Figure X plots the second (institutional) factor for the different countries, which is also given in Table II above.

As Figure X indicates, there is indeed a nearly perfect grouping into liberal, coordinated and mixed countries, when one looks at institutional variables bundled together into one factor. There is therefore good reason to believe that Factor 2 indeed measures economic liberalism/coordination, also because it is very strongly correlated with Hall and Gingerich's (2009: 458) indicator for employment coordination ($r = .79$) and coordinated company relations ($r = .92$, both $p < .01$).

However, Factor 2, which indicates the degree of coordination for different countries, is unrelated to any of the 24 different areas of patents per one million

Figure X Coordinated/liberal institutions (Factor 2)

inhabitants, which the WIPO distinguishes, even when applying a significance-threshold of .05. In this sense, the varieties typology still accurately describes institutional differences between countries, but fails to predict strength in patents. This means that whether countries use more or less market-arrangements cannot be explained by strengths in different economic sectors, contrary to what the varieties of capitalism typology claims (Hall/Soskice, 2001b). The following section instead argues that widely shared normative values can explain differences in capitalist countries.

Different capitalisms, different cultures?

Critiques of the varieties of capitalism-typology have used similar arguments as the empirical data above evokes, claiming that differences in economic performance cannot explain why capitalisms differ (Becker, 2007; Peck/Theodore, 2007; Streeck, 2009). Instead, some scholars claim that cultural differences explain capitalist variety. However, existing studies remain rather nebulous as to what exactly these cultural differences might be. Dobbin (1994: 3) argues that different countries construct their economic institutions because 'extant principles of so-

cial and political order were generalized to the economic sphere.' Peck and Theodore (2007: 744) argue that economic institutions are the 'outcomes of patterned searches for coordination solutions, through which actors tend to reveal a (national) culture.' Crouch (1993: 296) referred to such cultural views that influence how policymakers organize production as 'policy styles':

"Style" may seem a trivial variable compared with the balance of power; an epiphenomenon if there ever was one. But it is not to be written off in this way. When the active groups in a particular society tackle the latest conflict [...] a solution will be sought that involves as little disturbance as possible to known and understood principles of organization.'

In this view, when countries regulate economic sectors, they apply principles that they already applied in the past. This means that countries construct economic institutions based on their differing cultural conceptions of what is 'rational.' The welfare state literature operates with such a concept as well. Notably, scholars argue that conservative, social democratic and liberal welfare states are rooted in different conceptions of social justice, favouring in-group solidarity, nationwide solidarity or liberalism (Goodin, et al., 1999: 5; Kersbergen, 1995: 229; Schröder, 2013: chapter 5). Thus, in the view of welfare state scholars, social policy results from widely held conceptions of social justice. Indeed, one of the central proponents of the varieties of capitalism approach also claims that 'the more basic causal factor [behind economic regulation] seems to be differences in the attitudes or orientations of the relevant political actors, with roots deep in national history' (Hall, 1999: 137). If this is the case, then market-friendly attitudes should be more widespread in liberal countries, which consistently use market-liberal regulation. The following sections will test this.

The International Social Survey Project asks questions that allow to infer how much legitimacy markets enjoy in different countries. Figure XI below shows what percentage of respondents in different countries in the ISSP 2009 agreed to the statement that higher income should buy better health care. To see whether these conceptions of social justice correlate with varieties of capitalism, the figure plots this variable against the second factor of the cluster analysis used above, which mirrors how coordinated or liberal countries are. As the figure shows, the more respondents in a country approve of market mechanisms, the less coordinated a country is ($r = -.81, p < .01$).

A second question that tests the acceptance of market mechanisms is how much people agree to the statement 'Higher income should buy better education.' Figure XII below shows what percentage of respondents agreed with this statement, relative to how economically liberal a country is.

Figure XI Attitudes towards markets (in health care) and coordination

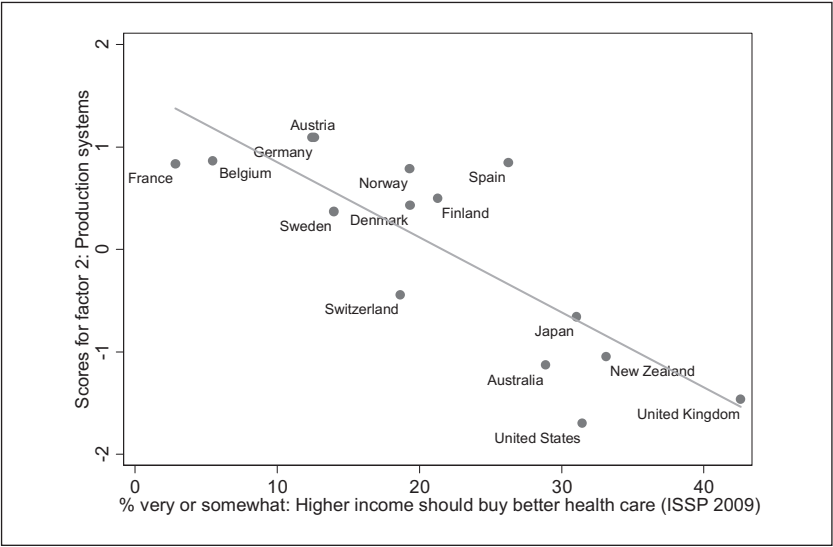


Figure XII Attitudes towards markets (in education) and coordination

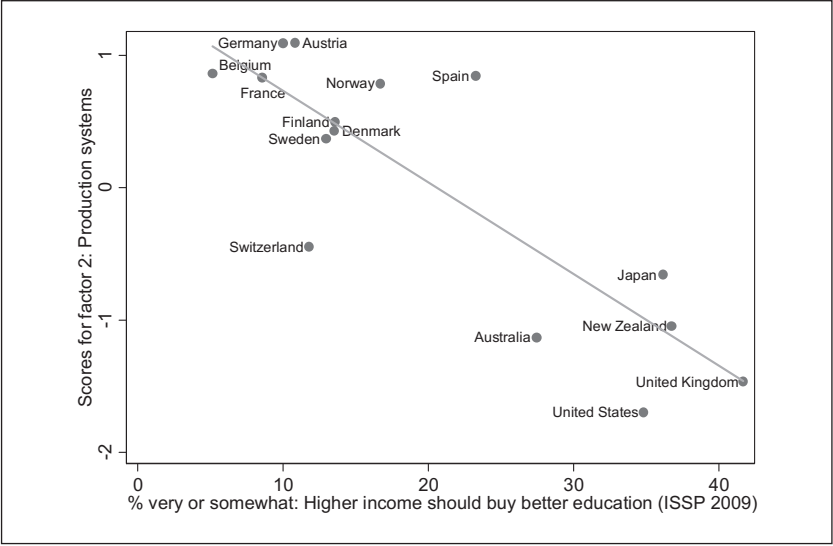


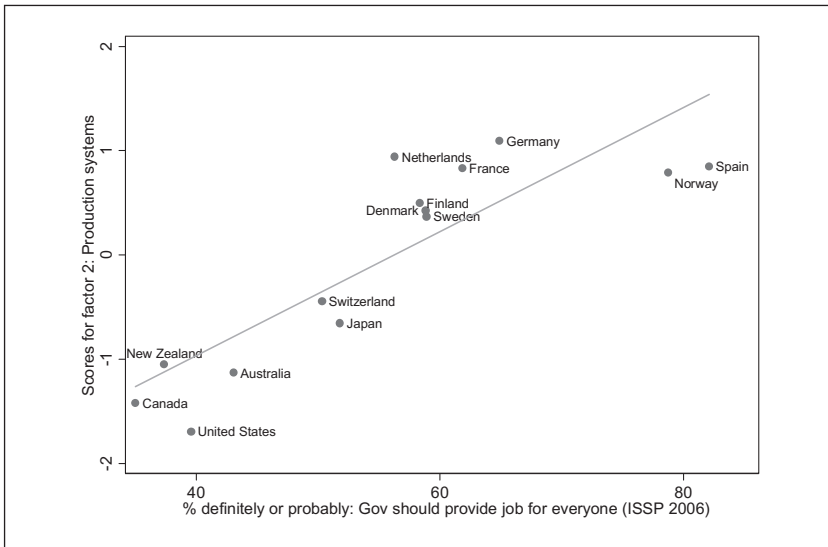
Figure XIII Attitudes towards markets (in job creation) and coordination

Figure XII shows how the average respondent in every liberal country (and Japan) favours market mechanisms more than the average respondent of every coordinated country does ($r = -.84$, $p < .01$). However, while this clustering is obvious, specific values about education might bias the image that Figure XII conveys.

Another question in the ISSP asks directly about state involvement in the economy. Figure XIII plots how many respondents agreed to the statement that the state should guarantee a job for everyone and compares this to how liberal a country is. Again, an average respondent in every coordinated country expresses more desire for state involvement in job creation than an average respondent in every liberal country does ($r = .86$, $p < .01$). While this shows that social justice views go together with economic institutions, it leaves the mechanism unclear that could connect the two.

Building on Max Weber's (2002 [1905]) notion that Protestant sects brought an ethic that promoted capitalism, Sigrun Kahl (2005; 2009) argues that Calvinism, prevalent in Anglo-American countries, promoted a culture of individualism, which inhibited solidarity. She also argues that Catholicism, which historically marked Continental European countries, promoted almsgiving that kept people confined to their social groups. In turn, Scandinavian Lutheranism historically promoted a nationwide community of believers, thereby supporting national soli-

darity. Kahl uses these religious doctrines to explain the roots of modern poor relief (also cf. Kersbergen/Manow, 2009; Manow, 2009). However, could the different forms of social solidarity, which stem from different religious roots, also have led to different types of market economies that go along with different degrees of inequality? The following sections show how the historical institutionalist literature indicates that religious differences indeed might have given rise to forms of social solidarity, which in turn gave rise to economic institutions that are now commonly understood to cluster together as ‘coordinated’ and ‘liberal’ capitalisms and lead to different degrees of inequality.

Liberal countries

Calvinism and Reformed Protestantism influenced the economic system and the welfare state of the United Kingdom, the United States, Canada, New Zealand, Australia and – indirectly – Ireland. These types of protestantism promote the view that success on markets should determine social status, as ‘God helps those that help themselves’ (Weber, 2002 [1905]: 115). Even the crucial question what status one’s soul is to have – ascending to heaven or being doomed to hell – is seen as legitimately determined by markets, as Weber (2002 [1905]) detailed in his Protestant Ethic. Kahl (2005: 107) therefore argues that the Calvinism and Reformed Protestantism of these countries promotes an ‘ethos of work and individual responsibility’ and an attendant policy style that rejects public intervention in economic life (Goodin, et al., 1999: 64; Kahl, 2009: 285).

Adam Smith (1979 [1776]: 232 f.) voiced these individualistic views by arguing that ‘social atomization is the prerequisite of perfect competition.’ Thomas Malthus, Jeremy Bentham, (the young) J.S. Mill and David Ricardo also echoed these religiously inspired arguments, claiming that markets are a ‘natural’ way to govern economic activity and therefore not be interfered with. Calvinism and Reformed Protestantism influenced the regulation of welfare so that ‘liberal politics [...] found its fullest flowering in England’ in the 19th century (Goodin, et al., 1999: 40; also cf. Mann, 1993: 286 ff.). However, the connected liberal policy style, rooted in Calvinism and the individualistic philosophies that fit it, not only influenced the regulation of welfare, but also of economic institutions. Dobbin (1994: 25) showed that, in early British regulation, ‘the political autonomy of individuals was constitutive of political order [...]. Planning was left entirely to private investors. Neither localities nor the central state presumed to meddle in private planning.’ In countries where this view of economic rationality was influential, the labour movement found a difficult environment for arguing why it should be allowed to coalesce into powerful peak associations that can coordinate the econ-

omy (Alcock/Craig, 2001: 135; Crouch, 1993: 89, 338; Moschella, 2011: 93; Taylor, 2004: 415 ff.). In this sense, an individualistic liberalism, mirroring the central doctrines of Calvinism influenced the welfare state and the type of capitalism towards a liberal ideal.

The UK exported this liberal policy style to its colonies (Castles, 1993: 27). Religious English settlers 'reinforced the belief in the USA that one could "get ahead" by hard work and individual initiative' (Hollingsworth, 1997: 134). The most important feature of this was the idea that individuals should 'solve social problems from within their own moral resources' (Mann, 1993: 636). This discouraged associations that could coordinate the economy, by attributing economic success or failure to individual initiative (cf. Hacker/Pierson, 2010: 87). Important to this individualism was the idea that 'centralized political authority was destructive', which went together with the idea that centralized business or labour associations were destructive, as market mechanisms should be left to their own devices (Dobbin, 1994: 3, 23). Encompassing associations could hardly legitimize their existence in such an environment, where any form of collective price setting or encompassing association became illegitimate to the point of becoming legally prohibited (Dobbin, 1994: 20; Hollingsworth, 1997: 135, 141; Mann, 1993: 486 f.; Steinmo, 2010: 170).

Canada, New Zealand and Australia oriented their conceptions of legitimate economic regulation to those of the UK and later of the US. Calvinism in Canada brought the idea that the state 'should not interfere in matters naturally governed by the invisible hand of the market' (also cf. Birch, 1955: 177; Brodie, 2003: 11; Kudrle/Marmor, 1981: 88). However, French settlements and non-liberal thought provided an attenuating influence on Canadian liberal doctrine (Birch, 1955: 178; Myles, 1996: 121). Similar to Canada, liberal conceptions of British settlers influenced Australia and New Zealand (Bryson, 2001: 66). These countries, in the tradition of British Common Law, established the right of male workers to a living wage through arbitration courts. They not only limited welfare transfers, but also the power of associations to coordinate the economy, as they shared 'Britain's underlying liberal emphasis on individual responsibility' (Schmidt, 2000: 238; also cf. Schwartz, 2000: 76).

Thus, in countries now known as liberal market economies, the 'liberal principle of non-intervention into the market has put its mark on social policy and labour relations' (Crouch, 1993: 314 f.; Ebbinghaus, 2006: 76; also cf. Goodin, et al., 1999: 243). Thus, the culture of these countries influenced their welfare and production system, legitimizing economic inequality (Dobbin, 1994: 10 f.; Goodin, et al., 1999: 64; Hacker/Pierson, 2010: 87). This conception is close to Castle's (1993: 30) 'Families of Nations' approach, which argues that because 'nations were linked to Britain [by] cultural transmission of ideas, their patterns of economic and po-

litical development – the preconditions for their subsequent strategies of state intervention – were decisively different.’ It is therefore not due to comparative advantages that these countries are – and remain – liberal. Rather, a cognitive frame that perceives liberal regulation as rational influences the welfare state and economic regulation in these countries, legitimizing social inequality. Countries that are now coordinated share a very different understanding of ‘rational’ regulation.

Group-Coordinated countries

In all non-Scandinavian countries now known as coordinated, ‘nation-building had been rendered difficult by religious and cultural heterogeneity’ (Crouch, 1993: 336 f.). The Catholic Church rejected liberalism, instead promoting its doctrine of subsidiarity, which stimulated solidarity within social groups, but weakened solidarity between them (Kersbergen, 1995: 31). It is therefore unsurprising that scholars describe ‘group politics’ as typical for these countries, which they understand as:

‘a residue of pre-industrial feudal forms, particularly as they have been codified in the social teachings of the Roman Catholic church. It remains a dominant model particularly in Germany and Austria and across the Catholic world. [...] Corporatists cherish, above all else, attachment to one’s community. But theirs is a very specific idea about how communities themselves are constituted. Communities, in the corporatist vision, are composed of groups nested within groups – each of which, under the principle of ‘subsidiarity’, is “sovereign in its own realm” (Goodin, et al., 1999: 51).

In this sense, Catholicism promoted what Thelen calls ‘segmentalist’ or ‘group-based’ solidarity and economic coordination, which differs from national coordination and from market liberalism (Thelen, 2010: 195 f.). Church-promoted and therefore group-based solidarity was especially pertinent in Germany, the prime example of a coordinated market economy. This was because the Catholic doctrine of subsidiarity fell on fertile ground in a country that was fragmented into regions, religions and classes (Ebbinghaus, 2006: 60; Mann, 1993: 321 f.). Not only did the welfare state conserve social cleavages of this type, by following an insurance logic that conserved social divisions (Mann, 1993: 675). Germany’s economic coordination followed similar principles; notably, economic coordination took place within social groups without reaching beyond them (Goodin, et al., 1999: 72). This still characterizes Germany’s economic regulation, not only because the insurance principle remains dominant, which reinforces social conservatism, keeping people where they are in the social hierarchy (Clasen/Goerne, 2011). It

also shows in the segmentation of employers and trade unions into occupations and regions, and even recent German liberalization can be understood as further segmentation into social groups (Palier, 2010; Thelen, 2012).

With its deep regional, ethnic and class divisions, continental European countries like Austria also provided fertile ground for the Catholic doctrine of subsidiarity. Indeed, the Austrian state became historically distinct for its willingness to share power with social groups, giving each group space to coordinate economic activity within its social realm (cf. Crouch, 1993: 306; Mann, 1993: 330 ff.). The country's strong social cleavages still make its occupational unions indifferent to national redistribution (EIRO, 2009a: 5; Katzenstein, 1984: 36). However, as the country became more unified, sectoral associations increasingly coordinated their agreements nationally (Hemerijck/Unger/Visser, 2000: 194; cf. Katzenstein, 1984: 61 f.). Belgium, the third most coordinated country, illustrates a similar link between strong Catholicism, segmentation into social groups and economic regulation. Belgium was – and still is – highly segmented in a Northern Flemish and Catholic part versus a Southern Walloon, secular and industrialized part (Lipset/Rokkan, 1967: 42). Belgium's solidarity within social groups went along with economic coordination through these social groups, so that Belgium developed a 'distinctive legacy of a state dependent on private groups for the management of public affairs' (Crouch, 1993: 309). Not only did redistribution take place within Belgium's social groups, instead of beyond them, with the famous Ghent system of unemployment insurance organized along trade unions and the social cleavages that they represent. Economic coordination took place within the same social groups, with trade unions and employer associations each bargaining for their constituency, which was demarcated by a 'socio-economic and a communal (linguistic) split' (Hemerijck/Unger/Visser, 2000: 189 f.; Schmidt, 2000: 268). While this historically made – and still makes – national coordination difficult, the different groups increasingly managed to work together intersectorally over time.

The Catholic doctrine of subsidiarity thus fell on fertile ground in societies that had strong cleavages in the first place. In these countries, welfare and economic regulation tried 'to ensure (1) that people are properly integrated into groups and (2) that groups in turn take care of their own' (Goodin, et al., 1999: 54). A policy style, where coordination within economic groups is seen as rational, built on and served to 'reinforce the segmentalist tendencies' that these countries already stood for (Palier, 2011: 50).

The four Scandinavian countries are different. They are the only countries to harbour a sizeable Lutheran population (still more than 80 percent of their current populations). Along with Lutheranism went a very different understanding of 'rational' economic regulation. This is because Lutheranism promoted a nationwide

community of believers (Kersbergen/Manow, 2010: 267; Thorkildsen, 1997). Different from Catholic societies, these countries' conception of 'community' therefore extended beyond social groups. Instead, the Lutheran conception of a community of believers meant that social solidarity encompassed society itself, which not only influenced the welfare state but also economic regulation in these countries (Goodin, et al., 1999: 45 f.; Kuhnle, 1981: 125; Lipset/Rokkan, 1967: 15).

Notably, nationwide solidarity went along with national economic coordination in Scandinavian countries, where employers and unions tried not to destroy, but to mutually stabilize each other, until each coalesced into nationally encompassing peak level associations (Crouch, 1993: 141). Especially in Sweden however, the social consensus behind this national coordination became increasingly difficult to sustain, so that it reverted to sectoral economic coordination in the 1980s. Finland's national pacts broke down with the financial crisis in 2008, while national coordination in Denmark and Norway remained largely intact (EIRO, 2009b: 6 f.; Martin/Swank, 2012: 7).

In this sense, there appears to be a striking affinity between religions that predominated in groups of countries, influencing not only the welfare state, but also the economic arrangements that countries and groups of countries constructed. Lutheranism and social homogeneity not only went along with a universal welfare state, but also with national coordination, which was vulnerable to breakdown however, when nationwide solidarity decreased. Catholicism and strong social segmentations brought not only a conservative welfare state, but also within-group coordination, which some countries expanded over time. In this sense, different religions and policy styles that fit them show elective affinities to the institutional arrangements of what scholars now refer to as liberal and coordinated market economies with liberal and social democratic or conservative welfare states respectively, which lead to different degrees of economic inequality.

Conclusion

Why do some countries have more income inequality than others? This chapter argued that more income inequality exists in different types of welfare states and production systems and that these different production systems and welfare regimes are rooted in different cultures.

Therefore, this chapter first showed that empirical indicators still attest that capitalism comes in a liberal and coordinated variety, surprisingly similar to what Hall and Soskice described for the late 20th century. However, while the institutions, with which capitalist countries govern their economies, still group in a liberal and coordinated variety with, respectively, liberal and conservative or social

democratic welfare states, comparative advantage in patents cannot account for this division. Liberal countries do not excel in radical innovations, neither in total terms, nor relative to their strength in incremental innovations. This chapter therefore advanced the hypothesis of a cultural explanation for varieties of capitalism, which the literature often alludes to, but has not yet spelt out. Notably, this chapter argued that English-speaking countries adhere to a Calvinistic understanding of social organization. This not only influenced the welfare state of these countries, but also how they regulate their economies, both of which in turn influence inequality in these countries. Notably, a Calvinistic understanding brought an individualism that not only precluded a strong welfare state, but also promoted economic regulation without encompassing associations, which precluded economic coordination and thus widespread collective wage bargaining that can reduce the inequality of primary incomes.

The most coordinated countries share different cultural roots. In these countries, split into social groups as they are, the Catholic doctrine of subsidiarity fell on fertile ground. This not only promoted a conservative welfare state, which sustains social groups. It also promoted a production system that was coordinated along the same group-cleavages as the solidarity that marked the welfare state. The medium degree of social solidarity that these countries have shows in their economic institutions, in their welfare state and ultimately, in their degree of social inequality. Scandinavian countries adhered to Lutheran values, which supported an understanding of nationwide community. This not only promoted a nationally universal welfare state that redistributes income. It also went along with national economic coordination which equalizes primary incomes.

While Catholic countries started with group-based solidarity that was then enlarged, Scandinavian countries started with Lutheranism and nationwide solidarity, which was vulnerable to break down. However, both groups of countries had a policy style that led not only to encompassing welfare states, but also to economic coordination, while the Calvinism of English speaking countries prevented not only encompassing welfare states, but also any type of economic coordination, both of which influence how much inequality exists in a country.

Based on such a cultural conception of capitalist variety, liberal capitalism should remain relatively stable, unless liberal countries lose their traditional faith in individualism. Only when regional and social segmentations will have ceased, should one expect more encompassing coordination in countries such as Germany, Austria and Belgium. In addition, one should bet on widespread economic coordination in Scandinavian countries, as long as the populations of these countries understand themselves as one community.

This cultural perspective complements the power resources approach, which argues that a strong labour movement advanced the welfare state and coordinat-

ed production systems (Korpi, 1985; 2006). The approach of a cultural policy style advocated here argues that it may well be true that organized workers promoted coordinated capitalisms; but it additionally explains why the labour movement found more support when it tried to organize in non-Calvinist countries. The cultural policy style argument of this paper also supports a view that sees various coalitions as supporters of the welfare state and production system (cf. Hall/Thelen, 2009: 13; Thelen, 2012). It additionally explains however, why such coalitions were more successful in rallying around liberal values in Calvinist countries and around goals of group-based or national solidarity and coordination in Catholic and Lutheran countries respectively. The notion of a cultural policy style also complements employer-centred approaches that try to explain the welfare state and economic coordination (Martin/Swank, 2011). This is because it concurs that the willingness and capability of employers to cooperate strategically is crucial to explain the welfare state and the production system. However, it adds to this that employers cooperate more willingly and successfully when their attempts to do so are compatible with prevailing cultural values. While the varieties-of-capitalism approach got scholars to think in dichotomous terms – of liberal versus coordinated economies – the policy style view advocated here allows differentiating two types of coordination, reflecting differences in solidarity that have been used to explain welfare states. It thus distinguishes group-based and nationally encompassing coordination. It thereby breaks up a simple dichotomy between liberal/inegalitarian and coordinated/egalitarian capitalism, as recent scholarship has urged to do, while leaving a basic distinction between liberal and coordinated countries intact (Thelen, 2012).

However, the concept of a policy style that this paper developed also suffers from some shortcomings. This chapter could highlight the evidence in the historical institutionalist literature, which indicates that culturally influenced policy styles impact economic regulation. However, in-depth case studies need to highlight how exactly philosophies such as liberalism found their way into the actual regulation of the production system. This chapter could merely show an elective affinity, a striking parallelism, between deeply ingrained understandings about social order in the welfare state and economic regulation of different countries. But do cultural influences work as cognitive frames through which policymakers understand ‘rational’ policy (cf. Dobbin, 1994)? Or do policymakers consider widespread public opinions because they want their decision to be perceived as legitimate (cf. Brooks/Manza, 2007)? A more detailed account would have to trace the specific mechanism, through which widespread conceptions about how to organize public order find their way into actual economic institutions. Whichever may be the case; if the culturally influenced policy style, according to which countries determine what they see as rational regulation, is as long lasting as the perspec-

tive advocated here suggests, then varieties of capitalism based on different forms of solidarity are there to stay, even when comparative advantages in economic sectors do not accompany them.

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