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ABHANDLUNGEN

Varieties of Capitalism and Welfare Regime Theories: Assumptions, Accomplishments, and the Need for Different Methods

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Abstract This article reviews assumptions, contributions, and impasses of the two most important theories of capitalist diversity: Esping-Andersen's (1990) welfare regime and Hall and Soskice's (2001) varieties of capitalism typology. It shows that each theory implies a multilevel structure that nests lower-level units in upper-level units. However, even though this multilevel structure is at the center of many debates in the comparative capitalism literature, it is rarely explicitly modeled, let alone tested. Identifying this as an important route forward for research on capitalist diversity, I will show how future research could employ multilevel models to answer some of the most important questions about capitalist diversity.

Keywords Regime typology · Methodology · Mixed models · Hierarchical models

Theorien von Kapitalismusvarianten und Wohlfahrtsregimen: Annahmen, Erfolge und die Notwendigkeit anderer Methoden

Zusammenfassung In dem vorliegenden Artikel werden Annahmen, Erfolge und Sackgassen der beiden wichtigsten Theorien kapitalistischer Vielfalt beschrieben: der Wohlfahrtsregimetheorie Esping-Andersens (1990) und der Theorie über Kapitalismusvarianten von Hall und Soskice (2001). Es wird dargelegt, dass jede Theorie eine Mehrebenenstruktur impliziert, welche untere Einheiten in oberen verschachtelt. Obwohl diese Mehrebenenstruktur im Zentrum vieler ungelöster Debatten in der vergleichenden Kapitalismusliteratur postuliert wird, wird sie selten explizit modelliert, geschweige denn getestet. Der Artikel zeigt deswegen, wie die explizite Modellierung von Einbettungsstrukturen im Rahmen von bisher nicht genutzten

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Mehrebenenmodellen einige der wichtigsten Fragen der international vergleichenden Kapitalismusforschung beantworten kann, besonders die Frage, welche Kapitalismus- und Wohlfahrtsregimevarianten es gibt.

Schlüsselwörter Regimetypologie · Methodologie · Mehrebenemodelle · Hierarchische Modelle

1 Introduction

This article reviews assumptions, contributions, and impasses of the two most important theories of capitalist diversity. Based on this, I will show how these macro theories of capitalist diversity could use multilevel modeling to find answers to their most important questions (for multilevel modeling see Meuleman 2019; Schmidt-Catran et al. 2019). First, I will illustrate how Esping-Andersen's (1990) welfare regime theory differentiates between three worlds of welfare: a Scandinavian social democratic, a Continental European conservative, and an English-speaking liberal welfare regime. Second, I will show how Hall and Soskice (2001a) differentiate a liberal type of capitalism in English-speaking countries from a coordinated type of capitalism in Continental European and Scandinavian countries. I will explain the theoretical assumptions that underlie each approach and the literature's critique of it. I will then show how each theory implies a multilevel structure that nests lower-level units in upper-level units. But even though this multilevel structure is at the center of many debates about Esping-Andersen and varieties of capitalism, it is rarely explicitly modeled, let alone tested. Identifying this as an important route forward for research on capitalist diversity, I will show how future research could employ multilevel models to answer some of the most important questions about capitalist diversity.

2 What Can Researchers Expect from Theories of Capitalist Diversity?

Theories of capitalist diversity provide useful guidelines about which country differences to expect and which not to expect. For such theories to be useful, however, one must understand that the welfare and capitalist regimes that they describe are ideal types, to which countries adhere to a greater or lesser degree. Keeping the ideal-typical nature of regimes in mind neutralizes some of the most important criticisms against macro theories of capitalist diversity.

A first obvious criticism is that no two countries are ever alike, so that grouping them into welfare or capitalist regimes feigns an unwarranted simplicity. While two countries are certainly never alike, this is no argument against theories of capitalist diversity. Think about how we generally use typologies. Everyone agrees that every tree is different from every other tree. Nevertheless, it still makes sense to group trees into families, in spite of their individual divergence. Similarly, even though every country is unique, it makes sense to test *to what degree* countries match with and diverge from a regime type. Theories of capitalist diversity therefore never deny that there are differences between countries. In fact, by grouping countries into regimes, they highlight what divergence to expect, and which aspects to find exceptional. Far from denying the existence of differences between countries, this allows national differences to be systematized in the first place.

Second, critics of theories of capitalist diversity argue that it is unclear how many regime types they should distinguish (Saint-Arnaud and Bernard 2003; Amable 2003; Ferragina et al. 2015). Is it enough to split the coordinated market economies of European countries away from the liberal market economies of English-speaking countries (Hall and Soskice 2001b)? Or should one further subdivide Continental European countries with conservative welfare states from Scandinavian countries with social democratic welfare states (Esping-Andersen 1990; Thelen 2014)? The answer is that neither undermines the utility of theories of capitalist diversity. Again, take the example of how we classify trees. The fact that we distinguish trees from other flora, and thus use a coarse distinction, does not undermine the utility of a more fine-grained division, which further distinguishes one type of tree from another. Similarly, theories of capitalist diversity allow one to discern coarser or more fine-grained country differences, depending on what is needed, just as maps of different scales serve different purposes.

Third, some argue against theories of capitalist diversity because some cases such as Japan or Switzerland seem unclassifiable (Dore 1997; Bonoli 2003). But if we wish to see whether a specific case fits into an existing system of categorization, we need to establish such categories in the first place. The fact that individual countries are sometimes not readily classifiable into one or another regime type is therefore no reason not to classify those countries that *can* be classified, to test whether unclassifiable cases are new combinations of old regimes or to develop new regime types.

Fourth, one can argue that capitalist countries can be differentiated by how they differ on certain variables, rather than subsuming them to one or another regime type. This is true, but such variables are collinear, which gives rise to theories of capitalist diversity in the first place. For example, countries with more generous unemployment insurance also tend to have more generous pension and health insurance, as well as coordinated wage bargaining and stricter labor protection laws (Ebbinghaus and Manow 2001; Schröder 2013). In other words, if some institutions within countries decommodify workers, others tend to do so as well, and this needs an explanation, which is provided by theories of capitalist diversity. So again, this is a reason to classify, rather than to abandon classifications. Let us once more take the tree analogy: one could describe every tree based on its variable attributes. But it also makes sense to highlight how trees that differ from others in one regard also tend to differ in other regards.

Two systems of classification have proven particularly useful to distinguish between different advanced capitalist countries. These are the relatively parsimonious theories of Esping-Andersen (1990) and Hall and Soskice (2001b). The sections below introduce their main ideas, accomplishments, and finally their problems, to suggest that many of these problems could be resolved by the application of multilevel modeling.

3 Esping-Andersen's Welfare Regime Theory

3.1 Theory

The main idea of Esping-Andersen's (1990, p. 26) welfare regime theory is that "the welfare state variations we find are [...] clustered by regime types." He suggests that welfare states cluster into an English-speaking, a Continental European, and a Scandinavian type, because each has a different "history of political class coalitions" (Esping-Andersen 1990, p. 1). This argument draws on the power resources approach, according to which strong welfare states are based on strong labor movements (Korpi 1985, 2006). But Esping-Andersen (1990, p. 30) reasoned that parties that represented the organized labor movement rarely had the necessary parliamentary majority to construct a welfare state, so that they had to form coalitions. These class coalitions took three forms, which led to three welfare regimes.

3.2 Three Welfare Regimes, Three Logics

Esping-Andersen argues that in Scandinavia, social democratic parties formed a coalition with small, capital-intensive, and politically well-organized farmers. This "red–green" coalition sowed the seeds for a universal welfare regime, which was successively extended to the middle class by providing ever-improving social services and public service jobs. In English-speaking countries, a liberal welfare regime remained residual because progressive parties found no one to enter into a coalition with. A third, so-called conservative welfare regime evolved in Continental Europe, where labor-intensive large-scale farmers were historically bound up with conservatives, which isolated the labor movement, so that Christian democratic parties created the welfare state on the basis of group-based solidarity, rather than on a universalism of all workers (Esping-Andersen 1990, p. 30).

Because social democratic parties were able to build a broad coalition in Scandinavia, they could make benefits progressively universal—not aiming them at the poor, but basing them on citizenship. For this to happen, benefits had to be so generous that they also appealed to the middle class, making this welfare regime the most decommodifying, as its "service is rendered as a matter of right, and [allows a person to] maintain a livelihood without reliance on the market" (Esping-Andersen 1990, p. 22).

The conservative welfare regime, mainly found in Continental Europe, can be very decommodifying as well, so that welfare states of this regime type are not necessarily smaller. However, contrary to social democratic welfare states, they redistribute within, rather than between social groups. Conservative welfare states function like an insurance policy. Those who pay a lot into the welfare system get a lot out if they become unemployed or when they retire. The individual proportionality between payments and benefits means that welfare states within the conservative regime type do virtually nothing to reduce social stratification. Instead, they are conservative in keeping everyone in their place within the social hierarchy (Esping-Andersen 1990, p. 24).

Last, the liberal welfare regime does not decommodify people, nor does it reduce social stratification. Instead, it follows the doctrine of liberalism, with benefits so low that they exclusively target the poor (Esping-Andersen 1990, p. 27). This welfare regime is embodied in the institutions of English-speaking countries. The simple distinction between social democratic, conservative, and liberal welfare states has been hugely influential. Esping-Andersen's (1990) original *Three Worlds of Welfare Capitalism* has been cited 27,000 times on Google Scholar. It rivals classics such as Max Weber's *The Protestant Ethic* and has provided a concise depiction of how welfare states differ, making it the workhorse of comparative sociology, political economy, and even much of economics (Scruggs and Allan 2006, p. 69).

3.3 An Implicit Micro–Macro Link in Each Welfare Regime

But this theory also contains a much-overlooked micro–macro link. The social democratic welfare regime presupposes solidarity among individuals, which is mirrored by similarly solidarity-based institutions in the unemployment, pension, and health systems. Institutions not only rely on individual solidarity (an influence that goes from the micro to the macro level); they also create it by handing out benefits when people need them. Because individuals are aware of how much the welfare state does for them in times of need, they are—at least in principle—willing to pay high taxes. While the macro institutions of social democratic welfare states could not survive without individuals' commitment to egalitarian justice, this individual egalitarianism in turn results from the macro institutions of social democratic welfare states. Their institutions are not only similar *within* the welfare states of Denmark, Norway, Sweden, and Finland, but also *across* these countries, collectively constituting a cross-national welfare regime, which differs from conservative and liberal welfare regimes.

Conservative welfare states also contain a specific micro–macro link, as individuals are said to be motivated by solidarity toward their social group. Due to this fragmented solidarity, individuals contribute to unemployment, health, and pension insurance systems that are divided along class lines, so that micro-level limitations in solidarity influence macro-level institutions. However, conservative welfare states not only rely on the fragmented solidarity that is typical in these countries, but also engender it, as they redistribute within social groups, but not across them. Such conservative welfare state institutions are not only similar within the unemployment, pension, and health systems of each country, but also across different Continental European countries.

Last, the liberal welfare regime also contains a specific micro–macro link, as individuals are said to hold pro-market attitudes, which in turn lead to residual welfare institutions. That these welfare institutions only cater to the poorest teaches everyone else to expect nothing of the welfare state, and this again reinforces liberal attitudes. This race to the bottom of liberal attitudes and institutions takes place in all English-speaking countries that form this welfare regime. In this sense, the idea behind each welfare regime is that "institutions give rise to certain interests and norms, which in turn either reinforce or undermine the original institutions.

We observe, in other words, a bi-directional causal logic between institutions and interests/norms" (Rothstein 1998, p. 135).

3.4 Empirical Studies

Empirical studies confirmed that the populations of different welfare regimes indeed harbor social justice views that mirror Esping-Andersen's theory (Arts and Gelissen 2001, p. 297; see also the results in Mehrtens 2004; Breznau 2010, p. 479 f.; Svallfors 2012). They also showed that welfare regimes are connected to a number of important outcomes, such as gender pay gaps (Mandel and Shalev 2009), possibilities to reconcile work and family life (Esping-Andersen 2009), labor market inequalities (Palier 2010; Palier and Thelen 2010; Chauvel and Schröder 2014, 2015), and majoritarian versus proportional voting systems (Manow 2009). Cluster analyses also confirmed that Esping-Andersen's theory fits with empirical indicators behind welfare states (Saint-Arnaud and Bernard 2003; Ferragina and Seeleib-Kaiser 2011; Ferragina et al. 2015; Schröder 2017). In short, a plethora of studies has documented many of the similarities and differences between welfare states that Esping-Andersen postulated. However, others found important aspects where the theory was deficient.

3.5 The Literature's Critique of Esping-Andersen's Theory

One important criticism against Esping-Andersen's welfare regime theory stated that it should consider "new" policy fields, such as family policy, rather than merely the classical welfare state responsibilities of sickness, retirement, and unemployment. Esping-Andersen indeed enlarged his regime theory accordingly, showing that characteristic differences between welfare regimes also exist concerning family policy: conservative welfare states encourage women to stay at home. Social democratic welfare states provide a large public sector for women to work in, as well as publicly funded childcare, both of which encourage female work, but segregate it into a sheltered public sector. Liberal welfare states neither discourage nor support female employment, as both would interfere with free markets (Esping-Andersen 2009). Taking the role of the family into account also led some to suggest a fourth regime type for Southern European countries. It was argued that in this "Mediterranean" welfare regime, families were replacing the welfare state (Lessenich 1994; Ferrera 1996; Ferragina et al. 2015). Others suggested that there was a Japanese or Asian regime (Esping-Andersen 1997); yet others suggested a post-communist regime (Castles and Obinger 2008, p. 338 f.). Seeing how one regime after another was added, some took this criticism to its logical conclusion, arguing that each country is unique, so that no country can be subsumed under one regime type or another (Crouch and Streeck 1997). Another critique was that institutions within countries are so heterogeneous that it makes no sense to speak of country-wide policy styles, let alone regime-wide ones (Kasza 2002; Scruggs and Allan 2006). Recent reviews therefore suggest that "[w]hile some authors have indeed discerned regime-consistent country differences in welfare state support there is much variation also among countries belonging to the same regime" (Kumlin and Stadelmann-

Steffen 2014, p. 6). The same critique has been made against varieties of capitalism, which distinguishes not between welfare states, but between types of economies.

4 Hall and Soskice's Varieties of Capitalism

4.1 Theory

Similar to Esping-Andersen's welfare regime theory, varieties of capitalism not only separates countries into types of capitalism, but also provides a theory to explain these differences. Varieties of capitalism starts from the opposite theoretical premise of Esping-Andersen's welfare regime theory, by suggesting that it is not the power of labor but employers' production models that lead to two types of capitalism: a market-based and a "coordinated" one. But why would firms ever militate against market arrangements in the economy? Hall and Soskice (2001a) argue that firms that continually improve existing products have an interest in coordinating with competitors and their employees. This is not easy because while both are better off if such coordination takes place, each has a short-term interest in cheating the other. This draws on the theory of neo-corporatism, which essentially postulates that economies are most efficient when workers and employers are either highly organized, because then they can help companies to work together, or highly unorganized, so that they cannot constrain companies. In contrast, labor and employer organizations with intermediate strength are too weak to help companies cooperate in game-theoretical dilemmas, but too strong to permit companies to enjoy the benefits ensuing from free markets (see Crouch 1993, p. 12; Lehmbruch and Schmitter 1979, 1982; Calmfors and Driffill 1988).

4.2 Two Types of Capitalism, Two Logics

According to varieties of capitalism, two antithetic types of capitalism are therefore efficient, each in their own right. Essentially, the theory differentiates between the same countries as Esping-Andersen's welfare theory, juxtaposing the liberal market economies (LMEs) of English-speaking countries to the coordinated market economies (CMEs) of Continental Europe and Scandinavia. But the varieties of capitalism approach added the revolutionary twist to Esping-Andersen's theory that firms themselves can have an interest in promoting non-liberal coordinated economic institutions which nurture "competitive advantages that depend on high levels of regulation" (Hall and Soskice 2001a, p. 63). Yet only companies that incrementally improve existing products need a high level of regulation. Consider automobile production, a typical industry with incremental innovation, as each new car model is intended to improve upon the former. Such long-term continual improvement needs workers to dedicate their working lives to improving one car. Varieties of capitalism argues that workers are unwilling to learn the specific skills necessary for this if they cannot be sure that they will stay with the same company for life (Estevez-Abe et al. 2001). Therefore, if companies want workers to learn company-specific skills, they have to insure them against unemployment. This gives companies a rational interest in generous unemployment insurance. Hall and Soskice also argue that firms which continually improve existing products need cooperative workforce relations, so that they favor employee codetermination. To facilitate long-term cooperation with their workforce, firms also have an interest in outsourcing the conflictual wage bargaining process to all-embracing employer associations and trade unions. Varieties of capitalism therefore suggests that companies in coordinated countries have a comparative advantage when it comes to incremental innovations, while companies in liberal countries are better at radical innovations that profit from the flexibility of free markets, rather than from long-term cooperation with the workforce (Hall and Soskice 2001a, p. 40 ff.).

Hall and Soskice also argue that more innovative countries grow at a faster rate, so that coherently coordinated and coherently liberal institutions are complementary in furthering economic growth. For example, strict layoff protection is complementary to employee codetermination, which is complementary to long-term financing, all of which supports a coordinated type of economy that brings incremental innovation and thereby economic growth. Hall and Soskice (2001a, p. 18) therefore suggest "that nations with a particular type of coordination in one sphere of the economy should tend to develop complementary practices in other spheres as well," so that over time, countries develop types of capitalist institutions that are either fully coordinated or fully liberal. Firms should even lobby for "less market" in coordinated types of capitalism, as they "attempt to preserve arrangements in one sphere of the economy in order to protect complementary institutions or synergies with institutions elsewhere" (Hall and Soskice 2001a, p. 64). Companies that pursue incremental innovations may therefore push for more employee codetermination, stricter protection against being laid off, generous unemployment insurance and stronger trade unions in an attempt to improve their competitiveness.

While long-term cooperation may help companies to continually improve products, it does little to foster radical innovation, which flourishes best on free markets with little regulation that allow capital and labor to flow where and when companies need them. The needs of radically innovating companies therefore clash with those of incrementally innovating ones. Companies that specialize in radical innovations do not require long-term cooperation with their workforce, so they oppose employee codetermination. They eschew long-term capital, needing venture capital to finance their ideas. They suffer from rigid labor laws, as they have to hire and fire workers for new projects. Firms that specialize in radical innovations therefore push countries to liberalize labor law and financing. This led to the revolutionary idea that liberal market economies are bound to become more liberal, while coordinated market economies are bound to become more coordinated in order to increase their competitiveness in global markets (Hall and Soskice 2001a, p. 57 f).

Based on this argument, the varieties of capitalism school could claim that extensive welfare states followed the wishes of capitalists, rather than the power of organized labor (Estevez-Abe et al. 2001; Swenson 2002; see also Mares 2001, p. 184). It thereby explained the large welfare states of coordinated and social democratic countries through efficiency rather than class struggle, contradicting the concept that the power resources of labor led to non-liberal types of capitalism (Esping-Andersen 1985; Korpi 2006). Thus, while the power resources school claimed that coordinated countries were built against the interests of capitalists where labor was powerful, the varieties of capitalism school claimed that coordinated countries catered to the interests of capitalists, and indeed were constructed at their behest. This seemingly irreconcilable debate was resolved by the Solomonic judgment that employers were not the farsighted enthusiastic supporters of welfare legislation that varieties of capitalism first portrayed them as. However, employers objected less strongly to social policy when they could integrate it into their production model by specializing in long-term incremental innovations (Paster 2011). Proponents of the varieties of capitalism approach accepted this, arguing that the power resources view provides an accurate picture of the low-wage/low-skill sector, which mainly produces for the domestic market. They maintained, however, that in the high-wage/high-skill sector that produces to satisfy international demand, the insurance function of the welfare state is better explained by "politics for markets," i.e., through the desire of employers, rather than the "politics against markets" of the labor movement (Iversen and Soskice 2015).

That economic regulation could promote competiveness, rather than impede it, was probably the most important insight of varieties of capitalism. It was largely unheard of in the comparative political economy literature, but it answered some of its most pressing questions, such as why German and Swedish firms were so different from American or British ones, and why this did not make them less but in fact more successful. Varieties of capitalism, for the first time, gave a good functional reason as to why liberal and coordinated types of capitalism are bound to become more diverse on increasingly competitive world markets.

The insights provided by varieties of capitalism were also applied to many fields that did not seem obvious at first. It explained how liberal market economies make it easier for women to combine work and family by arguing that "CME companies that invest heavily in company-specific skills will be worried about hiring women who may leave the company" (Soskice 2005, p. 173; see also Estevez-Abe 2005; Iversen and Rosenbluth 2010). Its "skill specificity" approach could show why CMEs have an interest in upholding a vocational training system that teaches specific skills, while LMEs support a larger university sector that teaches general skills (see Busemeyer 2009; Busemeyer and Trampusch 2011). Further developments of Varieties of capitalism included a cultural approach, which showed that the same pro-market attitudes that promote liberal welfare states also promote liberal economic regulation. Conversely, market skepticism not only promoted coordinated economic institutions, but also larger welfare states (Ebbinghaus and Manow 2001; Schröder 2009, 2013; Ahlborn et al. 2016).

4.3 The Micro–Macro Link of Varieties of Capitalism

Varieties of capitalism also proposes a very strong link from macro institutions to micro behavior, as it argues that "[i]n any national economy, firms will gravitate toward the mode of coordination for which there is institutional support" (Hall and Soskice 2001a, p. 9). But the link goes back from the micro to the macro level, as firms in turn support the institutions that they have learned to use to their competitive advantage (Hall and Soskice 2001a, p. 63). Because both links prevent change, institutions and companies are locked into a production model that is either based on widespread coordination that leads to and relies on incremental innovation, or widespread market arrangements that lead to and rely on radical innovation. This implies that individual companies even support institutions that restrict their freedom, as long as these institutions help them to cooperate with others.

4.4 Empirical Studies

Empirical studies were indeed able to confirm many of varieties of capitalism's central tenets. Countries with purely coordinated or purely liberal institutions indeed seemed to enjoy more rapid economic growth (Hall and Gingerich 2009; but see also Kenworthy 2006). Thelen (2012, 2014) traced how the most liberal countries (the US and the UK) became even more liberal, while Scandinavian countries became more inclusive and Continental European countries split workers further into insiders and outsiders. She argued that each variety of capitalism reinforces the logic that already marks its production system. Others found that varieties of capitalism explains why English-speaking countries push for free market regulation in multilateral negotiations, while coordinated market economies promote international social protection laws (Fioretos 2001; see also Hall 2014).

4.5 The Literature's Critique Against Varieties of Capitalism

Many voices were however critical of the theory's extremely parsimonious separation into only two types of capitalism. Some suggested an additional regime type for France (Schmidt 2002), others for China (Redding and Witt 2009; Peck and Zhang 2013), Italy (Trigilia and Burroni 2009), and Spain (Molina and Rhodes 2007). Nölke and Vliegenthart (2009) singled out Eastern European countries as dependent market economies which manufacture products that liberal and coordinated market economies invent. Schneider (2009) suggested that Latin American countries are hierarchical market economies, whilst Witt and Redding (2013) thought that Asian countries deserved their own variety of capitalism. Boyer (2005) subdivided the dual distinction of liberal and coordinated market economies into four varieties. Amable (2003) even proposed five types of capitalism, and recent tests found nine types of business systems among 61 countries that account for more than 90% of the world's gross domestic product (GDP; Witt et al. 2018). Another critique went in the opposite direction. It did not argue that countries within one regime type are more heterogeneous than previously assumed, but that major institutional heterogeneity exists even within countries, with companies creating coordinated islands in liberal market economies and liberal islands in coordinated market economies (Crouch et al. 2009a, b; Schröder and Voelzkow 2016).

However, neither have such debates fostered agreement on whether more regime types indeed explain greater cross-country variation, nor on which countries deserve a third, fourth, or fifth regime type, or whether greater variation lies at the level of firms, or of institutions that vary within countries or between countries, or even between groups of countries. I will argue below that the unresolved questions in Esping-Andersen's and Hall and Soskice's typologies are therefore structurally similar, and that they could therefore benefit from conceptualizing their open questions as debates about embedding structures.

5 New Methods to Test Capitalist Variety

Existing methodologies were unable to answer the most pressing questions about the most important macro typologies. While cluster analyses showed which country clusters exist in the first place, they were less useful when it comes to confirming or disconfirming the assumption that lower-level units such as individuals or firms are embedded in clusters at the country level (Amable 2003; Schröder 2009, 2013; Witt et al. 2018). While qualitative case studies showed how policymaking is similar within countries of the same regime type, they were less useful in delivering guidelines about how much variation is explained through similarities within regimes versus differences between them (Hall 1986, 1993; Dobbin 1994; Streeck 2009; Thelen 2014).

I therefore argue that Esping-Andersen's welfare regime theory and varieties of capitalism implicitly discuss embedding structures and that multilevel methodology could therefore resolve some of the most important questions that plague these typologies of capitalist diversity. While it is conceptually important to understand this, let me be clear that existing multilevel models rely on structures that are not always present in typologies of capitalist diversity. For example, two or three regimes types are too few in number for commonly used multilevel modeling methods (see Schmidt-Catran et al. 2019). With this in mind, I urge scholars to develop a multilevel methodology in order to answer the most important questions about capitalist diversity, and I urge scholars who study capitalist diversity to understand that many of their debates discuss embedding structures. The next section shows how this could answer some of the most pressing questions that currently plague macro typologies.

5.1 Testing the Multilevel Structure of Esping-Andersen's Regime Theory

In varieties of capitalism and Esping-Andersen's regime theory, individual behavior and attitudes can be seen as a level-1 (micro) variable. For Esping-Andersen, individuals are embedded in pension, unemployment, and health systems, institutions which can be understood as level-2 variables. Databases such as the *Comparative Welfare Entitlements Dataset* measure such variables, showing how generously the health, unemployment, and pension systems replace wages in case of need for different kinds of individuals. Cross-embedding each person in the health, pension, and unemployment systems of which he or she is a member can show the degree to which the generosity of each system varies within a country, but also between countries. For example, people in one country may be in a generous health system, but at the same time in an ungenerous pension system. If the appropriate micro-level data were available, one could show how generously, e.g., the retirement system replaces the wages of one individual compared to another. This shows how internally coherent a country's institutions are, and this can be compared to the internal coherence of another country's institutions. To measure this, one needs to nest individuals on level 1, the welfare institutions in which they are embedded on level 2, and both in countries as level 3. By embedding the third level of countries in a fourth level of regimes, one can even show whether the attitudes and institutions of different countries are more homogeneous within welfare regimes than between them. Keep in mind that the current methodology may not allow the clustering of lower-level units in regimes as a level, since there are only three regime types. A simple alternative may be to use dummy variables at the level of countries to measure regimes. It may also not always be possible (or indeed necessary) to use all four levels in actual multilevel regressions.

Nonetheless, much of the above critique against Esping-Andersen could be tested by modeling, and thus by testing (parts of) the multilevel structure that these theories postulate. For example, scholars who argue that new subfields such as family policy must be analyzed argue that people should not only be embedded in institutions that are more or less decommodifying in case of sickness, unemployment, or retirement, but also upon founding a family. Those who argue that more than three regime types exist technically simply argue that a level-4 regime variable explains much greater variation when it takes on more than three distinct values. As I mentioned above, scholars have also criticized that the institutions of countries do not conform perfectly to "their" regime type. Proponents of Esping-Andersen's regime theory technically simply argue that much between-country variation is explained through the clustering of individuals, institutions, and countries into regimes. Multilevel regressions can show how much variation of, e.g., decommodification or stratification, is indeed explained through regimes rather than through countries alone. One would therefore suppose that multilevel models have been routinely used in the regime modeling business. But in fact, multilevel models have rarely been used to answer the most pressing questions that arise in the welfare regime literature.

Jaeger (2006) explains individual support for redistribution by a two-level model that nests individuals in countries. However, this does not tell us how much individual variation (level 1) is explained through the institutions in which people are embedded (level 2), the countries in which these institutions are embedded (level 3), and the regimes in which the countries are embedded (level 4). Deeming and Hayes (2012) use multilevel regressions to show that happiness mainly varies between individuals rather than between countries. However, this does not show how much variation is explained through individual-level versus country-level, versus regime-level variation, so it remains unclear whether national- or regime-level characteristics explain happiness. Dallinger (2010, p. 344 f.) shows that two thirds of the variation in support for redistribution lies at the level of welfare regimes. However, this fails to explain how much of this variation is at the level of countries (level 3). Therefore, such studies cannot tell us how much individual variation (on level 1) is explained through the welfare institutions in which people are embedded (level 2), the countries in which the institutions are embedded (level 3), and the welfare regimes in which countries are embedded (level 4).

Existing studies indicate that such a design is feasible in principle. For example, Kallio and Niemelä (2014, p. 14 f.) show that residual cross-country variation on attitudes towards the poor declines by 36–56% after welfare regimes have been included. Similarly, Richter et al. (2012, p. 8) calculate that country variation in self-rated health is about 30% lower after including welfare regimes in a multilevel model. Others even suggest a reduction of about 50% (Rathmann et al. 2015, p. 419). This indicates that variation between countries can indeed be meaningfully explained when individuals, institutions, and countries are grouped into regimes. Some studies even use a three-level design that clusters individuals (level 1) into regions (level 2) and into countries (level 3). This indicates that individual differences explain about 90% of variation in health, with only about 9% explained through countries, and almost no variation explained through regions. Including welfare regimes as an additional explanatory variable (not clustering level) reduces the country-level variation from 9 to about 5% (Eikemo et al. 2008, p. 2288 f.). This suggests that while most individual differences in health can be explained through actual individual variation (level 1), about half of the remaining variation may be explained through differences in welfare regimes, while idiosyncratic country differences explain the remaining half.

Calculating such effects using multilevel models could pacify bitter debates about whether countries are more or less internally homogeneous, by answering fairly technical questions about which level explains the greatest variation for a variable of interest. However, existing studies virtually never employ such a design, so that some of the most important questions in the field of welfare regimes remain unanswered. Reviews of the field therefore argue that some studies test regime and country variation, while others test "individual-level variation within one country in policy experiences," while scholars should go beyond "one or the other research strategy and [to apply] what we may call cross-level thinking" (Kumlin and Stadelmann-Steffen 2014, p. 319). This has not yet happened, so that many of the most important questions about welfare states remain unanswered. Such a misfit between unresolved questions and approaches to answer them also characterizes the debates on varieties of capitalism.

5.2 Testing the Multilevel Structure of Varieties of Capitalism

Technically speaking, varieties of capitalism also suggests a specific type of multilevel structure: firms (as level-1 units) are embedded in institutions that are more or less coordinated, such as wage setting, training systems, and workplace representation. Such institutional variables, as for instance those coded in the *Database on Institutional Characteristics of Trade Unions, Wage Setting, State Intervention and Social Pacts* (Visser 2015, 2016), show whether employees are represented on the board of directors, how far-reaching their codetermination rights are, how all-embracing wage negotiations are, and how employer and labor organizations coordinate. It would be preferable to have these variables on the company level, but most of them only exist as country-level aggregations. Varieties of capitalism posits that such institutions are relatively similar within countries (level 3) and within a regime of coordinated and liberal capitalism (level 4).

Many debates about the validity of the varieties of capitalism relate implicitly to this embedding structure. For example, scholars who argue for more than two regime types suggest that more regimes explain much greater variation, while those who wish to retain only two regime types counter that the increase in explained variation through more regime types is negligible. Multilevel regressions can calculate who is right. Keep in mind, however, that since varieties of capitalism only distinguishes between two types of capitalism, it probably makes more sense to model the regime level with dummy variables on the country level, rather than as an actual level-4 variable.

Other critics have not merely suggested reclassifying countries or subdividing regimes. More radically, they have assailed varieties of capitalism's allegedly "pervasive tendency to methodological nationalism and spatial archetyping, in which the coherence of national regulatory configurations is presumed rather than demonstrated" (Peck and Theodore 2007, p. 750; similarly, see Allen 2004, p. 105). Technically, such critics argue that little variation is explained through level 4 (the clustering of countries into regimes) or level 3 (the clustering of institutions within countries). Others suggested that institutional arrangements vary with economic sectors, rather than between national types of capitalism (Hollingsworth 1991; Kitschelt 1991; Hollingsworth et al. 1994). Others still have posited that the institutions which companies use depend strongly on their embeddedness in subnational *regional* production systems (Piore and Sabel 1984; Storper 1997; Cooke et al. 2004; Parker and Tamaschke 2005; Crouch et al. 2001, 2004, 2009a, 2009b; Schröder and Voelzkow 2016). Technically, all of these critiques simply argue that a great deal of variation lies on level 2: institutions that vary within countries. This can be tested through multilevel regressions. One simply needs data on the institutions that firms use, such as whether a firm uses works councils, collective wage agreements, etc. One would then have to measure how much variation in the use of such institutions lies on level 1 (between firms), level 2 (intra-country variation between regions or economic sectors), level 3 (between countries), and level 4 (between regime types).

However, critics not only claim that greater variation lies on lower levels than varieties of capitalism is ready to concede. They also argue that varieties of capitalism underestimates variation on higher levels, ignoring that all countries may become neoliberal (for this critique, see Cerny et al. 2005; Soederberg et al. 2005; Bohle and Greskovits 2009). In its most extreme variant, this critique suggests that "political economy might have to abandon entirely the idea of national varieties of capitalism," as all types of capitalism become neoliberal (Streeck 2010, p. 38). Multilevel models could test this because such critiques—technically speaking—argue that no meaningful variation exists at level 3 (countries) and level 4 (regimes), but that all variation instead resides in a level-5 supercluster (capitalism), so that change within countries over time is more important than enduring differences between countries and regimes. In other words, these critics suggest that the within-variation, which is supposedly similar in all types of capitalism, explains greater variation than the between-variation, which durably differentiates between types of capitalism. Multilevel models could show whether the within-change of a clustering of all countries in years explains greater variation than do the between-differences through clustering in countries and regimes at each point in time. In this sense, many of the most important questions about varieties of capitalism can be answered through indicators that multilevel regressions calculate routinely, so that an important "route for future research is the analysis of within-country variation of institutional configurations" (Schneider and Paunescu 2012, p. 748).

However, multilevel approaches have rarely been used to answer some of the most important questions about varieties of capitalism, even though some studies show how this could resolve important questions. Bechter and Brandl (2015, p. 433) use data from 27 states and 18 economic sectors in order to show that “the sector context matters more nowadays than the country context.” However, as they lack company-level data, they can only show whether the deviation from the mean for an institutional configuration is lower on the level of sectors or countries. Thus, they cannot tell how variation in company arrangements is distributed between companies, institutions, countries, and regimes. To my knowledge, no study uses multilevel regression to show how much variation lies on which level, making this a promising avenue for future research.

6 Conclusion

I have reviewed assumptions, accomplishments and impasses of varieties of capitalism and Esping-Andersen’s welfare regime theory. This allowed me to show how discussions about macro typologies are often discussions about embedding structures, as scholars question how lower-level units such as firms and individuals are embedded in national institutions, how these institutions are embedded in countries, and how these countries are embedded in welfare and production regimes. But even though both critics and proponents of theories of welfare and production regimes discuss typical multilevel problems, they seem unaware that multilevel models may provide answers to some of their most gridlocked debates. For example, the welfare regime literature wants to know how much variation in individual behavior, attitudes, and outcomes can be explained through institutional arrangements in unemployment, pension, and health systems. The literature on varieties of capitalism wants to know how much variation between individual firms can be explained by the clustering of firms in sectoral and regional arrangements. Varieties of capitalism could use multilevel regressions to calculate how much variation is explained when clustering companies (level 1) in sectors or regions within countries (level 2), in different countries (level 3), and in types of capitalism (level 4). Welfare regime theory could test whether people (level 1) behave similarly or hold similar attitudes depending on the institutions in which they are embedded (level 2), the countries in which they live (level 3), and the country regimes in which they are embedded (level 4). As I mentioned, however, it may not always be possible to actually model an institutional level 2, as institution-specific data for individuals may not be comparable across countries and time, or because micro-level data that show in which health, pension, and unemployment systems people are embedded are unavailable. Generally, the levels that I am speaking of should be treated as conceptual, analytical devices. For example, the fourth level is only an analytical one, since there are no actors or institutions at the level of regimes. Note also that the typical number of three or four regimes at the fourth level may not be enough to treat them as actual levels, so they may have to be modeled using dummy variables.

Notwithstanding such problems, multilevel modeling could show how much variation of lower-level units can be explained when more regimes are distinguished, e.g., through a fourth type of welfare regime or a third type of capitalism. They could also test which clustering of level 3 units in level 4 explains the greatest variance. For example, is greater variance explained when Ireland is conceptualized as a liberal market economy, a coordinated one, or even as a third type? Multilevel models could also test whether the within-change of a supercluster over time (level 5, all capitalist countries) explains greater variation of lower-level units than does the variation at level 3 (between countries) and level 4 (between regimes) at each point in time. In other words, a panel dataset could show whether change that is common to all countries and country regimes explains greater variation than enduring differences between countries and country regimes do. Note again, however, that perfect data will be hard to come by. It would be ideal to have firm- or person-level data that also show the different national institutions in which individuals or firms are embedded. Such data would allow one to see whether, e.g., bargaining within companies, decommodification, or stratification of individuals depends on individual variation, within-country variation, between-country variation, or transnational differences.

Results of such studies will very much depend on what one is trying to explain. Since varieties of capitalism tries to explain innovativeness, usually measured through patents, the most important question could be whether differences between firms, between the institutions in which firms are embedded, between the countries in which institutions are embedded, or between country regimes explain the variation in innovativeness. Second, varieties of capitalism argues that countries with either highly liberal or highly coordinated institutions have a higher growth rate. It would therefore be important to see whether countries with highly coordinated or highly liberal institutions—and thus little variation between institutions on level 2—indeed have more rapid economic growth (Hall and Soskice 2001a, p. 37 ff.; Hall and Gingerich 2009).

For Esping-Andersen's theory, it would be most relevant to test whether decommodification and stratification vary between individuals, between the institutions in which individuals are embedded, between the countries in which these institutions are embedded, or between the regimes in which countries are embedded. Variables such as poverty, health, social trust, and altruism have been explained through welfare regimes. Again, a multilevel approach could show the degree to which they vary between individuals, the different institutions in which individuals are embedded, the countries that embed institutions, and the regimes that embed countries. If results differ widely depending on the dependent variable, then this indicates where macro typologies are useful, and where they are not.

It is notably indicators such as the intraclass correlation coefficient (ICC), which show the degree to which clustering occurs at each level, while the variance partition coefficient (VPC) shows how variation is explained through different levels. As some of the most important debates about welfare regimes and varieties of capitalism are about these questions, such indicators can give empirical answers to some of the most hotly debated topics in these fields. It is important to keep in mind, however, that using multilevel regressions and their typical indicators, poses some problems in itself. One problem, which has already been mentioned, is that the typical number of regimes that varieties of capitalism and welfare regime theory propose (two to five) is too small to be used as separate clusters. One could therefore instead model clusters as dummy variables (1 = belonging to a cluster, 0 = not), enter them into a regression model, and test how much variation remains on lower-level units, e.g., how much between-country variation is still explained through lower-level units when countries are grouped into regimes vs. when they are not. Note also that while multilevel regressions provide such indicators, researchers still have to decide whether, e.g., explaining 5% more variation by adding one more variety of capitalism is worthwhile. Judgment calls still have to be made, but at least they can then be made based on hard data.

Some researchers "have been always hostile to classifications, [arguing that] they constitute artificial constructions," suggesting that countries can only be understood through "detailed case analysis" (Ferragina and Seeleib-Kaiser 2011, p. 584). Such scholars are unlikely to be satisfied with any attempt to improve theories of capitalist diversity. However, if much variation can be explained through capitalist regimes, proponents of macro theories of capitalist diversity know that their assumptions rest on a solid footing in spite of such criticism. Conversely, critics of macro-typologies have a point if little variation can be explained through country regimes. So far, debates between country specialists and macro-regime scholars have been dialogues of the deaf, with one side showing that a country is different from another, and the other showing that both countries are nonetheless part of the same regime. Instead of arguing about the proverbial half-full glass, multilevel regressions can show precisely how full the glass is, that is, how much variation can be explained through the embedding of companies and individuals in institutions, countries, and country regimes.

In this sense, some of the most important questions about welfare theories of capitalist diversity must no longer be the topic of philosophical debates. Modeling the multilevel structure that these theories imply but cannot test could put a number on who is (how) right and who is (how) wrong. This could yield concrete results, such as that, e.g., 70% of the explicable variation in firms' strategies or individual welfare attributes depends on the actual firm or individual (level 1), while another 10% depends on the variation between institutions within countries (level 2), another 10% depends on institutions that are similar within countries (level 3), and yet another 10% depends on institutions that are similar across countries and thus within regimes (level 4). No doubt scholars will then find a reason why a given percentage is a lot, or is not, but at least debates could then rely on empirical facts, rather than on opinions.

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