Chapter 3 has identified five ways to discuss endogenous institutional change and the three predictive channels of path dependence, cyclical power relations and deliberate institutional design. These three channels were taken up by Chapters 4 and 5 to formulate a framework of institutional change and by Chapters 6, 7 and 8 to illustrate the framework through the analysis of labor institutional changes in the USA, Germany and China. The two descriptive tools of modes of change and evolutionary narratives will be utilized in this chapter to sum up and compare the three illustrative chapters.

In the first section, we will compare the labor institutions of the three cases, the three specific patterns of change they exhibited, and the roles played in these patterns by the three channels we identified. We will also use Thelen’s notion of the modes of change to attempt to compare the three patterns across her criteria. The second section will interpret the institutional changes on the national level as portions of the world-system, compare their successfulness and use these changes to show the limitations of evolutionary narratives in the case of national-level institutions.
9.1 Shapes of Labor Institutions; Patterns of Change

Having explored the national labor institutions of the USA, Germany, and China in the previous three chapters, we can now take stock and adopt a comparative stance. The simplest way to do so is by observing the relevant data as equilibria and compares the three cases in the two static points of 1980 and today via the most recent data. Table 9.1. does so in order to compare income inequality, the role played by labor expressed in bargaining coverage and union density, the role of household consumption in GDP and labor market regulation expressed by EPL indices.

Table 9.1 Changes in institutions and social effects

|                          | USA 1980 or closest year | USA most recent year | Germany 1980 or closest year | Germany most recent year | PRC 1980 or closest year | PRC most recent year |
|--------------------------|--------------------------|----------------------|-------------------------------|--------------------------|--------------------------|----------------------|
| Household final consumption % GDP | 61.3% (2018) | 68.2% (2018) | 58.9% | 52.3% (2019) | 50.9% | 38.5% (2018) |
| GINI                     | 31.6                     | 38.7 (2018) | 25.9 | 29.4 (2018) | 28 | 41.2 (2017) |
| Bargaining coverage      | 25% (2018)               | 11.2% (2018) | 85% | 54% (2018) | 15% (1990, adjusted) | 39.3% (2012, unadjusted) |
| Union density            | 22.3% (2018)             | 10.1% (2018) | 34.9% | 16.5 (2018) | 58.6% | 42.6 (2013) |
| Employment Protection Legislation for regular employment | 0.09 (1985) | 0.09 (2019) | 2.5 | 2.6 (2019) | – | 3.26 (2012) |
| Employment Protection Legislation for temporary employment | 0.25 (1985) | 0.25 (2019) | 5 (1985) | 1.38 (2019) | – | 1.75 (2012) |

Sources World Bank (2020) (Household final consumption); OECD (2020) (Employment Protection indices); Visser (2019) (Bargaining coverage, adjusted; Union density); Solt (2020) (GINI, disposable income)
We can observe that the USA began the period of interest to us with the most consumption-led growth model at 61.3% GDP, with (West) Germany fairly close at 58.9% and China at a lower position of 50.9% and that their relative demand foci have substantially diverged with the USA even more consumption oriented today at 68.2%, but Germany and China considerably less so at 52.3 and 38.5%, respectively. Inequality data is not as readily available and continuous as we would like, and we have used the SWIID database to compensate. China and the USA stand out today as representative of very high-income inequality with Germany remaining relatively more equal (although gradually moving toward greater inequality). Labor organization in terms of union density data is formally highest in China,\(^1\) mid-level in Germany and very low in the USA, with bargaining coverage starting high in Germany and relatively low in the USA and China and ending moderately high in Germany, somewhat lower (although more than doubled in 12 years) in China and very low in the USA. In terms of regulatory protection, the USA has had unchangingly very flexible employment laws, Germany has moved from high protection for regular and very high for temporary workers to a dualistic structure of high protection for regular and low for temporary workers, while China, having enacted modern labor laws in the interim, has formally high protection for regular and intermediate protection for temporary workers. Even in such cursory comparison, we could surmise that the labor markets showed clear tendencies toward liberalization in all three cases, but that this turn to free markets did not happen in a uniform manner. While such a static comparison of two equilibria states can be useful, it clearly misses the comparison of the processes which lead from one to the other equilibrium.

This thesis has argued for an in-depth analysis of institutional change, which went far beyond such limitations of static comparisons. We have firstly observed specific constellations of institutions through the Northian prism which encompasses institutions in their formal, informal, and avoidable aspects. In the USA, the avoidable aspect is particularly strong, as the unions are generally too underpowered to protect the low-wage workers even at the level of securing the enforcement of their employment contracts. The collective bargaining practices (treated here as informal

\(^1\)As we have seen in the previous chapter, this data shows membership in the party-led ACTFU, which does not organize labor in the same sense as the unions in liberal democracies do.
institutions) are decentralized and slanted in favor of the employers, while regulations (formal institutions) are very flexible and free market oriented. In Germany, the avoidable aspect is not overly relevant as the formal institutions preserve the high protection at least for mainstream employment, while informal institutions (practices of collective bargaining) remain relatively centralized with outcomes dependent on the unions, which remain strong in manufacture. In China, the avoidable aspect is even more relevant than is the case with American labor institutions, as formal institutions are often treated as guidelines rather than rules and the collective bargaining practices are only slowly formed due to a lack of independent worker representation.

The changes in these institutions since the 1980s also followed distinct patterns—which we tracked through the three channels of path dependence, formal political pressures and systemic cycle-driven power resources. In the USA, the predominant channel was path dependence. The labor institutions were free market oriented to begin with and changes in the post-1980 period only exacerbated these tendencies. The power resources and systemic cycle driven channel could not overcome path dependence and orient the formal and informal institutions toward a labor-friendly regime as labor had low structural and associational power throughout the period of interest to us. The financial expansion only exacerbated this, resulting in a dysfunctional developmental strategy that favored the paradoxical combination of a domestic consumption-led growth model and a diminishing wage ratio of GDP. Finally, the formal political channel is designed to help political minorities resist reforms and the labor legislation was kept in a state which provided for a flexible regulation of labor and severely constricted the ability of unions to organize labor. The process of labor liberalization in the USA can be broken down into the seven separate drivers of change we identified and was under the influence of: initial institutional conditions of free market-oriented coordination; a long-term cumulative technological change favoring labor-saving techniques in industrial production (diminishing labor structural power); the systemic cycle which has: (a) driven the US economy into a financial expansion, (b) substantially expanded the US trade deficit as production for its market moved off-shore and has therefore (c) created the conditions for a growing superfluity of manufacturing labor and an accompanying decrease of labor union density; an extensive developmental strategy which is essentially a supply-side-oriented free market policy paradigm and finally, an absence of effective transnational
conditionality or mechanisms of domestic politics geared toward large reforms.

In Germany, all three channels intertwined to produce the pronounced modern dualism of labor institutions. Path dependence worked in favor of labor veto power and the systemic cycle-power resources channel bifurcated power on the strong presence of unions (high associational power) in the industrial core and weak presence (low associational power) in the service sector. This set the stage for the third channel of deliberate institutional design through formal politics, which was used by the Schröder government to try to restore market efficiency by making labor institutions more flexible. This reform contributed to a move toward an extensive developmental strategy and was itself a compromise taking into account the strong position of core labor due to the first two channels and the less structurally and associationally strong labor on the margins. Breaking it down into seven drivers, the German labor liberalization through dualization is a result of: initial institutional conditions of a coordinated market economy (including high associational power of labor); long-term cumulative technological change favoring labor-saving techniques (diminishing labor structural power); the systemic cycle which put Germany in a phase of material expansion (increasing labor structural power) and in the context of which a developmental strategy could be chosen. This enabled a move from an intensive to an extensive developmental strategy coinciding with the introduction of the euro and the intensifying of the eurozone economy interaction with Germany—which in turn expanded the trade surplus (increasing labor structural power). These changes worked to increase the structural labor power in manufacturing, which remained a latent veto player necessitating a design (made possible by a political system which enables reforms) of an extensive strategy which circumvented the core labor and focused on the marginal labor as a target for flexibilization.

Finally, the two channels of path dependence and deliberate institutional design have proven crucial in institutional change in China. The channel defining the interactions of the systemic cycle and power describes the changes in structural power in labor, and as structural labor power has a consistent history of rising in China, the interests of labor were increasingly likely to be taken into account. However, as associational power is low due to a Party-led labor organization monopoly, labor has very little capacity to directly influence institutional change. Path dependence is important in keeping this capacity low as it provides the major neutralizer
for the rising structural power of labor. The key element of path dependence in China in this respect is the position occupied by the Communist Party which strives to preserve its de facto political monopoly of power, including the prevention of independent labor organization. This allows the third channel to fully articulate, largely as developmental strategies, which remain the top-down led preserves of the formal political process led by the Party. The institutional changes have been directed toward an extensive developmental strategy in most of the post-1980 period but show pronounced tendencies toward an intensive shift in recent years. To break down this increase in labor protection into drivers: the specific type of a search for higher labor standards is a result of initial structures which favor the one-party monopoly of power (virtually disabling associational power of labor), long-term cumulative technological change favoring labor-saving techniques but a recent history of catch-up favoring a continued increase of labor use; the systemic cycle which enabled China to undergo a material expansion (increasing labor structural power), an increase in trade surplus as a result of labor low cost (increasing labor structural power) and an ongoing move from an extensive to an intensive developmental strategy (i.e. opposite to the German move) in order to provide an internal market as an alternative.

Comparing these patterns with modes of change (as discussed in Chapter 3), we can see that these two approaches may be somewhat compatible as this strand of literature primarily describes how rather than why institutional change takes place. Thelen’s description of the change in American labor institutions is displacement, which evokes a clear break with old rules—or a deregulation pure and simple—enabled by low veto power of the defenders of old institutional arrangements and low discretion in institutional interpretation. The change in German labor institutions is discussed as an example of drift or preserving of the old form of institutions while also deliberately neglecting the old functions of institutions as the environment changes and renders the old form inefficient, while this change is enabled by the high veto power of the defenders of the old arrangements and high levels of discretion in institutional interpretation (Mahoney and Thelen 2010; Thelen 2012, 2014). One could argue against these descriptions on several points. Firstly, we could claim that all national-level institutional frameworks surely exhibit some signs of several modes of change—conforming not to a simple matrix or agent description, but to many overlapping levels of agent interactions. In this sense, it is entirely logical that Hacker and Pierson (2010) describe US
labor institutional change as drift, as they observe the change as taking place at the level of formal politics. Secondly, and more specifically, American institutions changed through a very long process where a relatively deregulated labor was further deregulated, which in itself hardly evokes a clear break. If we accept the view of labor institutions as interconnected and ultimately intended to provide the rules for employment and work conditions, then we may also have some difficulties in using the simple matrix of agents, political contexts and institutional characteristics. The level of discretion in interpreting institutions on the operative level in the USA must be high rather than low as showed by the high importance of the avoidable aspect of labor institutions. Thirdly, German labor institutions exhibit a number of new measures intended to help the most vulnerable, which hardly constitutes deliberate neglect which supposedly accompanies institutional drift. However, such arguments could easily overshoot. Thelen provides us with a low-resolution cognitive map for comparing modes of change on a national level, and in this sense, she succeeded admirably. US labor institutions did undergo a clear (although slow and path dependent) pattern of deregulation, which enables her to group it under displacement. German labor institutions likewise did undergo the dualistic bifurcation of labor institutions, enabling her to focus on the continuation of the function of old rules in the industrial core and the lack thereof on the margins—and therefore to describe it as drift. While these patterns should not be taken literally and should be used with caution, they can help us understand and describe specific, national-level institutional change.

We have tried to increase the useful resolution offered by the modes of change by integrating the modes of change with the three channels of change. Table 9.2 summarizes this integration.

| Path dependence (C1) | USA       | Germany  | China        |
|---------------------|-----------|----------|--------------|
|                     | Displacement | Drift | Layering |

| Cyclical power relations (C2) | USA       | Germany  | China        |
|------------------------------|-----------|----------|--------------|
|                               | Displacement | Drift | Layering |

| Institutional design (C3) | USA       | Germany  | China        |
|--------------------------|-----------|----------|--------------|
|                           | Drift     | Displacement | Layering |
In the US case, we have interpreted the two longer-term channels (path dependence and cyclical power relations) as examples of displacement and the shorter-term channel of deliberate institutional design as drift. In other words, both the diagnosis of Kathleen Thelen (displacement) and Hacker and Pierson (drift) are correct, once placed in their appropriate contexts in terms of timeframe and unit of analysis. In the German case the relationship of the path-dependent channel and the cyclical power-relations channel spelled out drift (with an all-out liberalization prevented by industrial labor power-bastions enforced both through material expansion and path dependence), but the crucial reforms also having been designed and enacted (suggesting active displacement and not passive drift at least in the fixed-term portion of the labor market). In each chapter, our second channel of institutional change has served to illustrate the shifts in power underlining episodes of change in labor markets. Here, the systemic cycle has helped us to offer an interpretation of the relationship between structure (institutional stability) and agency (institutional entrepreneurship) in the context of changing economic flows. With the channels of path dependence and deliberate institutional design often providing conflicting tendencies (as we can see in the Thelen-Hacker/Pierson dilemma), an important part is played by the political power of interested parties.

We were left only with the need to interpret the mode of change for labor institutions in China. It seems that Thelen’s description of layering best describes the initial period of changes we analyzed in Chapter 8. The period of the early 1980s to mid-2000s saw China move to an extensive developmental strategy with increasingly lax labor regulation and incrementally reduced labor rights. The old iron rice bowl was broken, but the system still supported the coexistence of insiders (old industrial concentrations) and outsiders (particularly migrant labor). The turn to free markets in China in general started through a type of localized experimentation typical of layering in the Special Economic Zones. More specific to the labor institutions, the fledgling universal legal order (introduction of a unified labor law in 1995) was in many ways seen as a legalization of the lower order of outsider workers, as the labor contracts were a step down from the position of the *danwei* system. This layered, dualistic structure of the Chinese labor market persisted and evolved. With the outsider migrant labor increasing in importance (and structural power) through a vastly effective developmental strategy, it attempted to secure better conditions via collective organization and strikes. However, China
continues to exhibit an old unchanging layer of institutions in which labor representation is a monopoly of the Communist Party (suggesting very low levels of associational power). The Party prefers to endow labor with rights in its own time and without independent pressures and it has been introducing various new measures enabling some basis for labor rights, collective bargaining and dispute settlement since the mid-2000s.

This has created exactly the type of conflict described by Thelen ideally, as the increased knowledge of legal basis and use of existing mechanisms strengthened the ability of workers to self-organize and enabled a growth of pro-labor legal activists. However, the CCP remains a veto player *par excellence* and it has dealt with the conflict with a crackdown on the activists. The fundamental issue remains the question of the continued development of the structural power of labor without enabling an independent associational power structure to act as an ordered valve. This is essentially the layering conflict in labor institutions with Chinese characteristics. If the reforms prove successful and fully turn the Chinese growth model to intensive development and combine it with functional collective bargaining, we may in the future be in the position to analyze the period after the mid-2000s as a case in institutional conversion (as the solutions are devised in a top-down manner and institutions are redefined as well as replaced). However, at this juncture, we can still observe the conflict which is a long-term companion of layering.

It is also useful to note the differences between the approach in this book and the approach of the excellent Baccaro and Howell (2017). They are similar to this approach in their focus on labor institutions as central to capitalism, in choice of time period to observe change and the inclination to include power and growth models in the analysis of institutions. It is dissimilar in the chosen cases with only Germany being the common case, and in the authors’ approach to capitalist processes. Baccaro and Howell take a page from the regulationist book and primarily argue the common trajectory of political economies in Western Europe, which they call the neoliberal convergence. They recognize that such convergence does not result in common institutional forms (ibid.: 15), and only seem to use the term convergence to describe the various tendencies toward increasing employer discretion. By the end of the book, the authors argue for an inherent instability of growth models (export-led and debt-led) that have developed on such basis. In contrast, the view of capitalism inspired by the systemic cycle theory enables a more historically informed approach. While Baccaro and Howell are entirely correct in assessing the growth
models in the developed world as unstable, the theory developed here allows us to see all historic growth models as inherently unstable. The focus of systemic cycle theory could be interpreted as the identification of alterations in development strategies. What makes these alterations otherwise unobvious are the perpetual changes in circumstances, technology, predominant organizational forms and supranational economic relations. As expounded in Chapter 2, the systemic cycle theory focuses on the common elements across the various historical episodes and lands on material and financial expansions conducted in the context of extensive and intensive capitalism (Arrighi) and the four fixes alternating between crises of legitimacy and profitability (Silver). While the historicity of this theory may make it somewhat vague, the present book has reinterpreted its crucial categories in order to adapt it for the use of institutional change analysis. We can use it to operationalize the common trajectory but also to focus on systemic differences within it.

9.2 Interactions of the Systemic Cycle and Darwinistic Narratives

This section will first deal with the uses and limits of Darwinistic analogies in connecting global and national capitalisms in segment 9.2.1. It will then turn to interpreting our findings from the previous three chapters through a systemic cycle perspective in segment 9.2.2.

9.2.1 Using Darwinistic Analogies in Interpreting National-Level Changes

As we have seen in Chapter 3, evolutionary analogies are one of five common ways to conceptualize institutional change. To function, these analogies need to identify three phases: variation, selection and inheritance. The applicability of these three phases in connecting national and global capitalism is limited in the modern world, although they have certainly existed for most of modernity. We could claim that the historical periods of hegemonic transitions offered such examples. Different growth models provide a phase of variation (e.g. early entrepreneurship in Britain, nation-state-oriented capitalism in the Netherlands or late absolutism in Eastern Europe). A great power war until the end of World War II could be considered a definite selection phase of institutions. Here, growth models provide the tax and debt basis of financing a war machine (to
simplify matters somewhat: Habsburgian v. Dutch, French and Swedish in the seventeenth century; British v. French in the late eighteenth century and early nineteenth century and German/Austro-Hungarian v. British, Russian, French and American in the first half of the twentieth century). Wars tended to drag on until the fiscal and organizational capabilities of one side is exhausted and the other side assumes the leading position in Europe, extracts war reparations, adds more territory or appropriates more colonies. Finally, we could argue for a phase of inheritance if a defeated side adopted some institutional elements of the winning side. A most recent example would be the defeat of Germany, Italy, and Japan in World War II, after which all three adopted (or were mandated to adopt) more democratic and more liberal-economic institutional frameworks. However, the advent of nuclear weapons pushed the world in a technological direction which would suggest a great power war would result in mutual annihilation. This prevents the crucial aspect of direct Darwinism in institutions. There is no direct destruction of inefficient institutional forms and this provides one of the possible causes for the preservation of socially damaging institutions (e.g. rampant corruption, clientelism or predatory politics) as long as they provide net-increases of power resources of those who are best positioned to change or stabilize them. As we have seen in Chapters 2 and 4, this also influences the shifts in capital accumulation cycles as it results in our modern and historically unprecedented state of radical divergence between economic and military power, which is a state favoring the continued global predominance of the US military capacity. This creates a notably different picture than could be discerned from the ideal-typical systemic cycle in Fig. 4.1, which is notably evolutionary in terms of winning institutional solutions and developmental strategies (intensive-extensive). In place of sharp distinctions of winners and losers in the competition for hegemonic (or central) position, the modern world produces a slow crawl where the lost edge in productivity is punished in the political or military sense only with a substantial and increasing delay. It seems that Wallerstein’s understanding of hegemonies as brief moments is increasingly relevant with a prolonged following phase of losing various elements of dominance. Currently, the US military is still by far the largest, but its ability to finance large overseas missions or gather large alliances is diminished, suggesting a limited use for military capacity.

However, there are indirect ways in which the phases of variation, selection, and inheritance may play a role in national capitalisms. As we have
seen in Chapter 3, Steinmo sees ideas as a type of variation producing mutations. This falls outside of the scope of the present thesis which opted to focus on power, systemic cycle, path dependence and deliberate institutional design. If we had focused on ideas, we would likely attempt to explain the genesis of the Hartz Commission plan as an attempt to copy the existing flexicurity solutions and the obstinance of US and Chinese reforms to outside ideas.2 Research based on such an analogy could explore the flow of ideas within the epistemic communities and international organizations. In the context of policy promoters like the EU, OECD, IMF and the World Bank, it would certainly prove relevant in analyzing more vulnerable and smaller states, but our research did not point to an important role of transnational conditionality in the three selected cases. The evolutionary analogy is more likely to resonate with the present thesis through a more subtle and systemic-cycle-oriented interpretation of relative successfulness of specific institutional sets and changes, to which we now turn.

9.2.2 Interpreting National Changes as Elements of the Systemic Cycle

World-systemic analysis interprets the world-system as a world-wide division of labor which has a developed, industrialized core (exporting manufactured products high in the supply chain) and an underdeveloped periphery (exporting primary products). If we are looking for indicators of relative world-systemic successfulness, we could do worse than to analyze the mutual trade relations of the three economies in question. There are six possible directions of trade (US exports into China and Germany, German exports into China and the USA and Chinese exports into the USA and Germany), and the latest available data from Harvard Economic Complexity Atlas (all for 2018) can help us track their value and composition. The USA runs trade deficits against both Germany (exports are valued at $58 billion and imports at $134 billion) and China (exports

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2 With Barack Obama being denigrated as a European Socialist by his opponents during the drive for the Affordable Care Act, and the infamous Chinese Document no. 9 from 2013 which was a CCP internal document warning against the dangers of the spread of Western values like universal rights, independent judiciary, free press, constitutional democracy, etc Buckley (2013).
at $120 billion and imports at $455 billion\(^3\). Germany and China are relatively balanced, with a more moderate advantage of China (German exports into China were at $87.3 billion and imports at $110 billion). The composition of these exports is consistent with traditional conceptions of patterns of trade between developed economies, as all six routes are dominated by exports of machinery and transports—most notably in German exports to China (67.9%), to the USA (57%) and Chinese exports to Germany (52.2%) and the USA (51.6%), but less pronounced in US exports to Germany (37.7%) and China (36.2%). In principle, all other significant categories are also manufactured goods or chemicals. The only exception is US exports to China which have a substantial primary goods proportion as 24.8% are either agricultural products, minerals, stone or metals (CID 2020). Taking their mutual trade as representative of competitiveness and capacity, it would seem that between the three national capitalism cases, the highest position on the global supply chain is occupied by Germany, and the lowest by the USA.

During the Trump administration, there was a notable trade confrontation, particularly toward China, and particularly in 2018/2019. It could be argued that this has been a response to the strategic improvements in China’s economy and trade. Made in China 2025 aimed to increase the technological complexity of manufacturing while Belt and Road actively develops closer economic ties with strategic partners. These strategies may have caused some hegemonic apprehension in the USA (Kim 2019; Kwan 2020). However, while the results of this shock are not yet entirely visible, they have certainly hurt both parties (Itakura 2020). Likewise, the COVID-19 pandemic of 2020 has caused another shock to global economy and trade. As of October 2020, it seems that Chinese exports are recovering far more quickly than those of USA (WTO 2020). Therefore, it seems that the established hierarchy of complexity is likely to be maintained. It may be a counter-intuitive conclusion from the point of view of traditional Wallersteinian approach to world-systems, which saw the relative positions within the world-system as relatively fixed. The original positions of the core-type economic development in the USA and the periphery-type in China would be expected to replicate themselves longitudinally. However, these conclusions are consistent with the systemic cycle theory of this thesis, which built upon Arrighi and

\(^3\)This suggests that the US deficit was dominated by its deficit with China in 2018 (almost a half of the value).
Silver. Firstly, the systemic cycle theory conceptualizes the world-system as dynamic and dependent on various national-level strategies. In this conceptualization, a successful strategy produces a shift in the relative positions of economies. Secondly, the major predictor is the phase of the systemic cycle. The economy that was the global leader in production and trade (USA) is predicted to eventually exhaust the profitable options in such activities and enter the phase of the financial expansion, which brings a form of deindustrialization and conceivably, a slide back down the global supply chain. Eventually, the weakening economic position leads to political results including a more multipolar world and possibly, internal destabilization. Silver and Payne (2020) have recently pointed to the controversial response to COVID-19 and the wave of US protests of 2019/2020 as indicators of a deepening hegemonic crisis. In all of this, large economies undergoing a material expansion face a more interesting situation in which vastly different institutional pathways are possible. China and Germany are two cases which were analyzed in this thesis. Their economies encompass complex solutions which spell out their unique positions. We first briefly describe the general puzzles of these two economies and then describe the ways in which our approach (i.e. three channels, seven drivers) made their institutions comparable to each other and the US framework.

The Chinese development combined strict control in areas of interest such as capital flows with rapid liberalizations in labor markets. This selective, but massive turn to a novel form of capitalism was conducted in the context of a completely and persistently closed political environment providing us with an oddity in transitional studies. Post-socialist countries in Central and Eastern Europe (much of former Soviet space notwithstanding) have for the most part constructed functional democracies. Many former Soviet republics are formally democracies, but often sport political elites which dabble in autocratic governing style. However, both of these variants accept at least the normative ideal of a liberal democracy, which has in Fukuyamesque manner accompanied the economic transition in the vast majority of countries undergoing transition in the post-1989 period. China has on the other hand kept its de facto one-party system even as the sequential and managed economic liberalization attracted capital. Its exports sky-rocketed under a favorable political climate, in which political success is connected to the personal involvement with an export increase. An independent labor organization is prohibited through
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a single party-controlled trade union umbrella—ACTFU (Clarke et al. 2004; Chan and Hui 2014). Its society has grown more unequal, with a period in which it overtook even the US levels. Following the occidental normative perspective, one could expect this structure of asymmetrical freedoms (economic freedom/political repression) to collapse either way: either for the prolonged economic growth to spill into a growing demand for democracy or for a stifling political regime to slowly suffocate the free economic growth. The relevant scenario from our point of view is the maturation of Chinese economy. This phase of its development has occurred in the context of what Arrighi would interpret as a terminal crisis of the US-led finance expansion. The reforms in China entail several processes: reducing the role of exports in its economy, more expensive labor which translates into larger household demand, supply-side reforms which must cut excess production capacity created under the old extensive development strategy which consisted of export-led growth benefiting

4 Acemoglu and Robinson think that the closed political top-heavy economic system (extractive institutions) must eventually push China into a stifling growth regime Acemoglu and Robinson (2013: 442 and passim). With the standard economic growth models (Solow-Swan), this is not inconceivable. Continuous technological breakthroughs are necessary for continued high growth rates. However, there are at least two reasons why this prognosis seems inapplicable, at least as it concerns innovations. Firstly, Chinese research and development is not stagnant in the least. The number of patents applied for each year is growing, and now dwarfs the numbers found elsewhere. In 2015, the number of patent applications was almost as high as the combined numbers of the USA, Japan and Korea WIPO (2016: 12). This suggests that the technological innovation atmosphere may have moved substantially away from the catch-up model. Secondly, the standard growth models via Acemoglu and Robinson assume a closed economy, with no new technological innovations being developed outside it. This is obviously not true, as the global system allows for a free flow of patents. In short, economic growth may be measured nationally, but the technological innovations that support it are global, and will presumably continue to be global. Therefore, China will not necessarily suffer from a growth slump caused by non-existent technological innovations. Even if it would cease to produce worthwhile inventions (which it will most probably not), it would still be able to utilize innovations from abroad, except in the event of global wars (which are also not likely to occur—see Lučev 2014). China may be facing a challenging situation in the Schumpeterian sense of innovation, i.e. in creative destruction that Acemoglu and Robinson (2013: 445 and passim) also take issue with. The issue is the continued functioning of capitalism if the government persists in choosing winners and losers rather than allowing the market to level the playing field. Here, the faith in the continued growth potential of unfettered markets (i.e. of Schumpeterian creative destruction) seems normative and hinges on an idealized view of free markets. Remarkable Chinese growth and an institutional mix which seems aberrant from the Western point of view (as the Acemoglu and Robinson approach shows) must be viewed on its own merits.
from very abundant labor and low costs, eventually more open capital markets, but a continued closed political system.

The German way seems to point to organizing the economy through the European Union led by Germany itself as the productivity motor. Here we have a vast experiment in levels of economic regulation through which the traditional welfare state is deconstructed, and many relevant macroeconomic decisions removed from the agenda of individual states. Namely, most aspects of social, health, labor, and military policies are left to the discretion of the individual states. However, the ways in which crisis response is constricted decisively influences these areas as most individual responses are prevented or severely restricted (tariff protectionism, individual monetary response within the eurozone and active anti-cyclical fiscal policy). These constrictions leave only the slow and arduous process of improving competitiveness through falling real wages as a crisis response, while the fiscal responsibilities of states in all of the recounted “untouched policies” are often cut. The member states are encouraged to increase the competitiveness (e.g. through the Euro pact) which can under these conditions only mean a liberalization of the labor market (or flexicurity, as one form of this process is affectionately named). This is a very roundabout way to indirectly ensure the wide-spread pressures toward the German labor solution—i.e. extensive developmental strategy. In particular, the German led EU can be interpreted as a formation of a new, tighter economic nexus, which indirectly exerts the downward pressure on the real wages of its immediate periphery—increasing the competitiveness of European exports. This pressure is issued through a form of macroeconomic agenda setting where all crisis responses are eliminated, save for the ones pertaining to real wages. The VofC agenda enables the location of institutional complementarities, which turn a nominally relatively modest institutional influence of the EU into a substantial force of institutional change in crisis circumstances.

We have used the framework from Chapter 5 to open the three cases to analysis, rather than to forgo them to the fog of ostensible exceptionalism. The framework sought to establish the theoretical basis for the connection between the systemic cycle and institutional change. To do so, it identified three channels of institutional change. The first channel of path dependence is a tendency for the initial institutional positions to perpetuate, suggesting that types of change are constricted with
the institutions already in place. In terms of institutional starting positions, Germany is historically a paradigmatic case of the Coordinated Market Economy which is a position justified by its traditional welfare state, corporatist institutions, protected labor markets and strong unions. However, Germany has more recently undergone changes which have resulted in a dualized economy more open to free markets. Here, the entire apparatus of the CME is used to protect the core industry workers while the more vulnerable groups are left to the market. The USA is a paradigmatic case of an LME and its tendency toward liberalization has only been exacerbated in the recent years as no strong labor organization exists which could prevent it. Finally, China is an unclear variety of capitalism as the VofC framework was intended only to describe developed countries, but its institutional tradition points primarily to the strong party at the core with party insiders networked across management and union structures. The issue there is the slow and arduous process of the associationally weak and structurally strong labor making its influence felt in policymaking. Another channel is the deliberate design of institutions under the influence of formal political mechanism of transnational conditionality and domestic politics, with the latter being able to provide crucial pressure in Germany (compromising with the other two) and China (benefiting from path dependence), and often being conspicuously absent in labor issues in the USA.

The crucial interplay occurs in the systemic cycle inspired channel, between the phase of the systemic cycle, power relations and developmental strategies. In terms of power resources, we have utilized the distinction of associational and structural power of labor. Associational power refers to the ability of unions to organize labor. The union density has been falling in all the three cases and is the highest in China, significantly lower in Germany and the lowest in the USA. However, as the analysis of informal institutions has shown, the highest leverage of unions would certainly be found in Germany (even though the power is bifurcated) as the collective bargaining practices are centralized. China, on the other hand, treats its unions as a part of the Communist Party and they do not yet have the functions we would expect in the West. The structural power refers to bargaining power of labor (and in practice, primarily industrial labor), which is primarily derived from its importance to the economy. Structural power is influenced by a number of factors and we focused on the phase of the systemic cycle, developmental strategy,
technological shifts and trade relations. The systemic cycle increased structural labor power in China and Germany (as they underwent material expansions) and reduced structural labor power in the USA (financial expansion). In this context, the developmental strategies and trade relations were developed with the successful post-2001 extensive strategy of Germany providing a trade surplus and therefore an additional increase in structural labor power in industry, and a long-standing extensive strategy doing the same for China until challenged in the last decade. An intensive material expansion which is currently developing will produce a balanced trade position, if successful, and a trade deficit if unsuccessful. Currently, China is still running a comfortable trade surplus, which is helping create a divergence of low associational and high structural power.

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