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The Varieties of Capitalism and Hybrid Success

Denmark in the Global Economy

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The varieties of capitalism literature maintains that advanced capitalist countries whose institutions best fit either the liberal or coordinated market economy types will perform better than countries whose institutions are mixed. This is because hybrids are less likely to yield functionally beneficial institutional complementarities. The authors challenge this assertion. Denmark has performed as well as many purer cases during the 1990s. And Denmark has recently developed a more hybrid form than is generally recognized by (a) increasing the exposure of actors to market forces and (b) decentralizing collective learning and decision making. The institutional complementarities associated with such hybridization have contributed to its success; however, these complementarities are based on institutional heterogeneity rather than homogeneity. This is demonstrated by analyses of three cases: Danish labor markets, vocational training, and industrial policy. The implication of the authors' argument is that the varieties of capitalism theory is logically flawed.

Keywords: *varieties of capitalism; institutional complementarity; Denmark*

Many researchers have shown that there is more than one way to organize capitalism to achieve socioeconomic success in today's global economy. Notably, proponents of the well-known varieties of capitalism approach, best represented by Peter Hall, David Soskice, and their colleagues, argued that there are two basic types of capitalism and that each one can perform successfully although for different institutional reasons. Liberal market economies (LME), such as the United States, coordinate economic activity through markets and corporate hierarchies and, therefore, perform successfully based on low costs and major product and technological innovations. Coordinated market economies (CME), such as Germany and Sweden, coordinate economic activity more through nonmarket mechanisms, such as informal networks or corporatist bargaining and, therefore, perform successfully based on high-quality products and innovations in production processes (Hall & Soskice, 2001a, 2001b; Soskice, 1999).

This is not to say that all advanced capitalist economies perform equally well and that institutional differences in the organization of the political economy are irrelevant. To the contrary, the varieties of capitalism literature predicts that socioeconomic performance is better in countries that best fit one or the other of these two types. Countries that fall somewhere in between these poles and represent hybrids will not perform as well (Hall & Gingerich, 2004; Hall & Soskice, 2001a, p. 45). This article challenges that assertion by focusing on Denmark—a country that has performed at least as well as many other advanced capitalist countries during the 1990s and early part of the 21st century, including those that fit much more closely either the pure CME or LME types. Thus, Denmark poses a paradox for the varieties of capitalism literature and raises serious questions about one of its most important logical tenets.

We argue that although Denmark is typically classified as a CME in much of this literature, it has recently adopted some important institutional aspects of the LME type and, therefore, has become more of a hybrid than the varieties of capitalism literature has recognized. To be sure, Denmark still retains many features of the CME type, and if we were forced to put it in either the LME or CME category, we would have to choose CME. However, we are reluctant to make that choice because the LME characteristics that it has developed have been important for its strong socioeconomic performance during this period. We show that Denmark's success stemmed, in part, from the dynamic interaction of its market and nonmarket institutions. The Danish case is fairly well known to students of comparative economic organization (e.g., Edquist & Lundvall, 1993; Kristensen & Zeitlin, 2005). Our goal is to explore the implications of this case for the varieties of capitalism literature.

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In addition to institutions, other factors were involved in Denmark's success. The pursuit of stable exchange rates, tighter monetary policy, an undervalued currency, deficit reduction, and increased debt-driven consumer demand have all been mentioned as having contributed to the story (e.g., Green-Pederson, 2003; Marcussen, 2000). Our purpose is not to adjudicate the degree to which institutional factors rather than these or other things mattered most (but see Schwartz, 2001). Instead, because the varieties of capitalism literature argues that for *institutional* reasons hybrids are not as conducive to socioeconomic success as purer countries, we examine Denmark (a) to show that hybrids can be just as successful as purer types and (b) to identify some of the institutional mechanisms that may contribute to their success. We are *not* offering a full-blown theory of hybrid institutional performance. We seek more modestly to offer some empirically based propositions and initiate a discussion heretofore absent in the varieties of capitalism literature about the beneficial effects that may stem from hybrid institutional arrangements.

The article proceeds as follows. We begin by reviewing the argument from the varieties of capitalism literature to clarify why it predicts that hybrid forms of capitalism will underperform relative to purer types. Second, we show that Denmark is less closely associated with the purer CME cases than the varieties of capitalism literature has acknowledged. Third, we demonstrate that Denmark's socioeconomic performance generally matched or exceeded that of several purer examples of capitalism: Sweden and Germany, two classic examples of CMEs, and the United States, the prototypical LME. Fourth, we explore some of the institutional reasons why Denmark performed so well. We examine three cases: Danish labor markets, vocational training and skill formation, and industrial policy. We find that Denmark's recent success stemmed, in part, from the incorporation into her traditional CME practices of two institutional features found typically among LMEs: (a) firms, workers, and other organizations became more exposed to the market and (b) institutionalized collective learning and decision making among firms, workers, policy makers, and others—a mainstay of CMEs (e.g., Katzenstein, 1985)—was decentralized in ways reminiscent of LMEs and the neoliberal policies that they favor. As others have argued, institutional decentralization in either the public or private sectors is one hallmark of a shift from organized (CME) to relatively disorganized (LME) capitalism (Lash & Urry, 1987). Indeed, the Danes pursued decentralization as part of a self-conscious effort to adopt parts of the neoliberal reform package (Kjær & Pedersen, 2001). All of this infused the Danish political economy with increased decision-making flexibility that, in turn, helped improve her socioeconomic performance. Finally, we discuss the theoretical implications of our findings for the varieties of capitalism literature and argue that its key claim—that pure cases outperform hybrids—is logically flawed and in need of revision because it assumes mistakenly that institutional heterogeneity is less beneficial functionally for socioeconomic performance than is institutional homogeneity.

Studying a small number of cases—even within a single country—offers two possible theoretical payoffs (Rueschemeyer, 2003). First is an opportunity for testing already established theory. Examining three cases in this particular country allows us to test an important theoretical claim from the varieties of capitalism literature and, as it turns out, to draw that claim into question. Second is a chance to develop preliminary theoretical propositions that can spark further debate and inquiry. By identifying common institutional changes that have occurred recently in these three cases and evidence that these changes contributed to Denmark's improved socioeconomic performance, we develop such propositions about some of the institutional reasons why hybrids can perform successfully. This is an important first step whenever new subjects or anomalies, such as the unexpected success of a hybrid form of capitalism, arise and are being opened up for investigation.

The Possibility for Hybrid Success

According to the varieties of capitalism literature, LMEs and CMEs have institutional capacities—albeit different capacities—for being successful. For instance, firms in LMEs tend to compete based on low cost and radical product innovation because they have institutions like weakly regulated labor markets and financial systems that impose short-term investment horizons but allow high risk taking. These enable firms to keep labor costs down, shed labor and close plants quickly, shift capital rapidly from one industry to another, and invest in risky but potentially revolutionary and lucrative R&D projects. Conversely, firms in CMEs compete more based on quality and incremental innovation, such as adopting breakthrough technologies developed elsewhere or by improving production processes. This is because CMEs have institutions like cooperative industrial relations systems within firms, coordinated wage bargaining across firms, nationally coordinated vocational training programs, and financial systems that allow for long-term investment horizons. These produce highly skilled managers and workers who tend to cooperate in planning, trouble shooting, and the introduction of the latest technologies in ways that enhance product quality and improve production processes. Furthermore, LMEs tend to promulgate neoliberal policies that sharpen market competition, such as economic deregulation, privatization, decentralization of government authority, and rolling back the welfare state. CMEs tend to eschew neoliberalism and instead promulgate policies that reinforce the capacities of actors for nonmarket coordination, such as by supporting corporatist bargaining and codetermination (Hall & Soskice, 2001a; Soskice, 1999).

The point is not just that there is more than one way to achieve success in the global economy and that these routes are to a degree institutionally determined, but that success depends on how well these institutions are integrated with each other. Specifically, the varieties of capitalism literature argues that the capacity of any country to perform well depends on its institutional complementarities. By *institutional complementarity* scholars mean that a country's institutions fit together such that the functioning of one depends on and enhances the functioning of the others. From our perspective, this insight is one of the major contributions of the varieties of capitalism literature. For instance, the returns from a stock market trading in corporate securities are likely increased by regulations requiring a fuller exchange of information about companies than by regulations that require less corporate transparency (Hall & Soskice, 2001a, pp. 17-18). Institutional complementarities can exist within and across many areas of economic activity, including labor markets and industrial relations systems, vocational training and education systems, corporate governance systems, interfirm relations, and relations with employees. According to the varieties of capitalism literature, the greater the complementarity among institutions governing the economy, the more institutionally coherent the economy is as a whole and the more successful it will be (Hall & Soskice, 2001a, p. 45). In other words, the more closely a country resembles either the pure LME or CME type, the more institutionally coherent it is and the better it will perform. Conversely, the more a county consists of a heterogeneous mixture of elements from the LME and CME types, the less institutionally coherent it is and the worse it will perform (Hall & Gingerich, 2004). The implicit assumption is that institutional complementarities are less likely to occur between the LME and CME elements found in hybrid cases.

Categorizing countries into types is not always easy. However, to our knowledge the most thorough and encompassing scheme yet devised to measure institutional coherence is that developed by Lane Kenworthy (2006). His measures of coherence capture the degree to which a country's institutions either conform to the LME or CME types or consist of a more heterogeneous mixture. For example, in his scheme Sweden, Germany, and the United States have high levels of coherence. Thus, the United States is a relatively pure example of the LME. Sweden and Germany are relatively pure examples of the CME. Other countries have much lower levels of coherence. As such, they do not fit either the CME or LME type as well and have richer mixtures of coordinating institutions from both types.

Other scholars have constructed similar indexes. One of the most well known was created by Peter Hall and Daniel Gingerich (2004), proponents of the varieties of capitalism tradition. However, as Kenworthy (2006) argued convincingly, their index does not well represent the full range of institutions that by their own account are important for coordinating economic activity. As a result, Kenworthy maintained that their index suffers validity problems and can be misleading. Denmark is a case in point. Hall and Gingerich placed Denmark squarely in the CME category. However, when Kenworthy transformed their index into a linear form with scores ranging from 0 to 1, such that the more coherent countries have higher scores regardless of type and the less coherent countries (i.e., the hybrids) have lower scores, he found that the Danish case was much less clear-cut. Denmark scored only .40 whereas, for example, the United States and Germany scored 1.0 and .90, respectively. Moreover, using his own criteria, Kenworthy classified Denmark as having only an intermediate level of coherence. In other words, although Denmark may still be a marginal member of the CME family, it has adopted a significant number of LME features. Hence, Denmark is more of a hybrid than is often recognized (see also Pedersen, 2006).[1]

However, what is perhaps even more surprising from the varieties of capitalism perspective is how successful Denmark was during the 1990s and early part of the 21st century in terms of its socioeconomic performance relative to more institutionally coherent countries. Remember that the varieties of capitalism literature predicts that less institutionally coherent countries should not perform as well as more coherent countries. Denmark defies this prediction. Let us take a closer look.

Danish Success in the 1990s

Socioeconomic performance has many dimensions. We focus on several using standard measures that are generally accepted by researchers working in the area of comparative political economy. When taken together, these give a good overall picture of a country's socioeconomic performance. Denmark's performance was much less impressive from the mid-1970s through the early 1990s than it has been since then—in its own right and in comparison to other Organization for Economic Cooperation and Development (OECD) countries. Indeed, until the late 1980s and early 1990s Denmark's performance was lackluster in terms of things such as average GDP and productivity growth rates, unemployment, inflation, budget deficits, and national debt (e.g., Campbell & Hall, 2006, Tables 2-6). Since then, however, her performance has improved considerably and matched or exceeded institutionally purer advanced capitalist countries—including some of the most successful.

Table 1 compares Denmark's performance on several social, economic, and fiscal measures during the 1990s and early 21st century with the performance of three countries that Kenworthy (2006) ranked as having much higher institutional coherence: the United States, Germany, and Sweden. Among the social indicators in Table 1, GDP per capita in Denmark, although a few thousand dollars less than in the United States, was still among the very highest in the world. It was also a few thousand dollars more than it was in either Sweden or Germany. All four countries were extremely prosperous, particularly in view of their very high scores on the U.N. Human Development Index. However, Denmark outperformed the United States in terms of income and gender inequality, poverty rates, and illiteracy rates, all of which were lower in Denmark than in the United States. It also outperformed Germany on all of these indicators, except poverty, where there was less than one percentage point difference. Sweden performed a bit better than Denmark on the gender inequality, poverty, and illiteracy measures, which is not surprising because Sweden has a reputation for being among the most egalitarian societies in the world. Still, by all accounts Denmark is among the most egalitarian countries in the world (World Economic Forum, 2003, p. 42).

Among the economic indicators, Table 1 reveals that Denmark's performance was again impressive. Danish growth in GDP was roughly the same as in Sweden and better than in Germany. The United States performed the best although its growth rate was surely inflated because of the dot-com bubble during the late 1990s that eventually burst and reduced growth rates after that. Productivity growth rates were virtually identical for Denmark, Sweden, and the United States whereas Germany experienced a slower growth rate. Similarly, unemployment was about the same in Denmark, Sweden, and the United States, but higher in Germany. Inflation was about the same in Denmark and the United States and somewhat higher than in either Sweden or Germany. However, at 2.3% annually, Danish inflation was well under control.

Finally, among the fiscal indicators in Table 1, Denmark had the largest government budget surplus of the four countries although it had more national debt as a percentage of GDP than either Germany or the United States. Nevertheless, Denmark began to pay down its debt, which had ballooned during the 1970s and 1980s because of profligate fiscal policies. Denmark also posted budget surpluses of about 1% of GDP through 2004. In contrast, the United States, largely through a combination of income tax cuts and expansive

Table 1
Socioeconomic Performance

	Denmark	Sweden	Germany	United States
Social Indicators				
GDP per capita 1998 (1990 US$)	$22,123	$18,685	$17,799	$27,331
U.N. Human Development Index[a] 2002	.932	.946	.925	.939
Income inequality 2000 (gini)	.247	.252	.252	.368
Gender inequality 2002 (ratio of female to male income)	72%	83%	52%	62%
Poverty rate 2002 (% population below 50% of median income)	9.2%	6.5%	8.3%	17.0%
Illiteracy rate 1994-1998 (% ages 16 to 65 years lacking functional literacy)	9.6%	7.5%	14.4%	20.7%
Economic Indicators				
Average GDP growth 1996-2000	2.7%	3.0%	1.8%	4.0%
Average productivity growth 1996-2000	2.3%	2.2%	1.1%	2.2%
Average unemployment 1996-2000	5.1%	4.6%	8.3%	4.6%
Average inflation 1996-2000	2.3%	0.5%	1.2%	2.5%
Fiscal Indicators				
Government budget surplus and/or deficit 1998 (% GDP)	+1.7	–0.5	–0.9	+0.8
Government debt 1998 (% GDP)	64.0	—	38.6	42.8

Sources: GDP per capita are from Maddison (2001, Table A-1c); gini coefficients for United States, Sweden, and Germany are from Mischel, Bernstein, & Allegretto (2005, p. 401); gini coefficient for Denmark is for the mid-1990s and is from the World Bank (1998, Table 2.8); human development index, poverty rates, literacy rates, and gender inequality data are from the United Nations (2004, pp. 139, 150, 221); all economic indicators are from Organization for Economic Cooperation & Development (2002, Tables 1, 13, 14, 19); all fiscal indicators are from World Bank (2001, Table 4.11).
a. The Human Development Index is a compilation of measures of life expectancy at birth, adult literacy rate, gross school enrollment, and GDP per capita.

military spending, replaced its budget surpluses of the 1990s with deficits running as high as 4.4% of GDP by 2004, which significantly increased national debt (Economic and Financial Indicators, 2005, p. 97). Similarly, in 2004 and 2005, as a result of sluggish economic performance and the continuing costs of reunification, Germany's budget deficits exceeded the limit of 3.0% of GDP required of members of the European Monetary Union (EMU) to which it belongs.

Overall, then, the performances of Denmark, Sweden, and the United States were all strong and largely similar to each other, except for inequality where the United States lagged behind. Germany's performance was less impressive. Indeed, the World Economic Forum (2005) ranked Denmark, Sweden, and the United States among the top-five most competitive economies in the world in 2004. Germany was ranked 13th. This is consistent with the findings in Table 1. What all of this tells us is that a country like Denmark that has only a moderate level of institutional coherence can perform as well or better than countries with much higher levels of institutional coherence.

Researchers have established statistical associations between types of capitalism or institutional coherence, on the one hand, and socioeconomic performance, on the other (e.g., Hall & Gingerich, 2004; Hicks & Kenworthy, 1998; Kenworthy, 2006). They have also suggested that we need to know much more about hybrid varieties of capitalism (Katzenstein, 2006; Molina & Rhodes, 2005; Zeitlin, 2003). Some have even suggested that hybrid forms may have their own unique dynamics that can produce socioeconomic performance that is just as good as LMEs and CMEs (e.g., Crouch, 2005; Kenworthy, 2006). Yet Kenworthy (2006, p. 81) lamented that although quantitative comparisons of aggregate data for many countries are useful for establishing associations between institutions and socioeconomic performance, they are less helpful for teasing out the causal mechanisms that link institutions to performance. One way to address this problem is to examine the relationship between institutions and socioeconomic performance through more qualitative case studies. We do this now for Denmark.

Hybrid Roots of Danish Success

This section of the article examines the institutions governing labor markets, vocational training and skill formation, and industrial policy in Denmark. We select these three cases because they are areas that have received considerable attention within the varieties of capitalism literature because of their relevance for socioeconomic performance (e.g., Estevez-Abe, Iversen, & Soskice, 2001; Hancké, 2001; Thelen, 2001; Wood, 2001). In each case, we show how elements typically found in LMEs have been incorporated into the traditional Danish CME structure in ways that have enhanced—not undermined—its socioeconomic performance.

Labor Markets

In Denmark, almost all workers belong to unions and are covered by collective bargaining agreements reached through corporatist institutions (Hicks & Kenworthy, 1998). In this regard, Denmark clearly exhibits traits associated with CMEs. However, the Danish approach to unemployment and labor market policy has recently involved some significant elements of the LME model as well. Danish labor market policy during the 1990s has been described as a system of "flexicurity," which consisted of three basic elements (Madsen, 2006).

First, Danish employees in the private sector have long had rather limited levels of employment protection (e.g., regulations governing firing, severance pay, etc.). Hence, employers had much latitude to hire and fire workers in response to market signals as is typical of LMEs. In this regard, Denmark had one of the most flexible labor markets in the European Union (World Bank, 2004, p. 36). Among the advanced capitalist economies the overall level of employment protection in Denmark was well below that of the classic CMEs, Sweden and Germany, and much closer to the LMEs, Britain, Canada, New Zealand, and Australia (Estevez-Abe et al., 2001, p. 165). As a result, job mobility was quite high in Denmark compared to many other countries. During the early 1990s, the median job tenure in Denmark was a relatively short 4.4 years—virtually the same as it was in the United States and Britain and about one half of what it was in Germany (10.7 years) and Sweden (7.8 years; Estevez-Abe et al., 2001, p. 170).

Second, however, workers were not left alone to manage such employment uncertainties. Denmark offered generous unemployment policies, health insurance, and other welfare benefits on a universal basis, as is typical in CMEs, to ensure that when workers became unemployed they would have a social safety net that was substantial enough to protect them and their families from some of the worst problems associated with unemployment. Unemployment policies were generous in Denmark compared to most other European Union (EU) and OECD countries, including those with large welfare states, such as Sweden, Germany, and the Netherlands (Hansen, 2000, p. 33). Indeed, during the early 1990s, Denmark's level of unemployment protection was greater than any other advanced capitalist country (Estevez-Abe et al., 2001, p. 168). That said, during the early 1990s these policies were reformed insofar as unemployment benefits were tied much more closely to requirements for employment seeking. Moreover, policy makers tightened eligibility rules for recipients, and some benefit levels were reduced (Abrahamson, 2006; Goul Andersen, 2002). These so-called activation policies are typical of LMEs like the United States where, for example, during the 1980s and 1990s welfare benefits were tied more tightly to job hunting (i.e., workfare), eligibility for benefits was restricted, and benefit levels were reduced (e.g., Weir, 1998). Activation has also become an important part of neoliberal welfare reform in various west European countries besides Denmark (Streeck & Thelen, 2004, p. 24).

Third, and reminiscent of CMEs, Denmark developed in the early 1990s an extensive set of active labor market policies established in law that helped unemployed workers obtain new skills and training so that they could return to work. Workers also received assistance and encouragement in locating job opportunities for which they could apply. As a percentage of GDP, Denmark spent more on active labor market programs since 1993 than any other OECD country except Sweden (OECD, 2004).

Insofar as today's global economy requires greater reliance on skills, learning, and labor market flexibility, the flexicurity system was especially well equipped to help Denmark perform successfully in the global economy. Studies show that the flexicurity system helped to significantly reduce Denmark's unemployment rate during the 1990s (Goul Andersen, 2002, p. 149; Madsen, 2006). It allowed employers flexibility in hiring and firing; it cushioned the blow incurred by workers through job loss; it encouraged and helped the unemployed to find new jobs; and it helped retrain workers toward these ends.

The Danish labor market benefited from additional sources of flexibility—many having to do with institutional decentralization. To begin with, in recent years, as a result of labor market reforms and corporatist bargaining, important elements of the welfare programs, active labor market policies, and some aspects of collective bargaining agreements were decentralized to the regional level and sometimes to the level of individual firms. For example, as a result of legislation passed in 1993, job retraining programs and other aspects of active labor market policy were tailored at the regional and local levels to fit the needs of local employers. This was accomplished through decentralized negotiations among unions, employer groups, municipal authorities, educators, and other relevant actors at the regional and local levels over curricular and other issues (Madsen, 2006, p. 336; Martin, 2005, 2006; Torfing, 1999, p. 388). As discussed further in the next section of the article, the labor market and the economy, in general, benefited from a workforce that was highly skilled because of this sort of well-institutionalized and flexible training and skill formation system. Because workers were highly skilled, they could move with relative ease among different jobs across and within firms, further enhancing labor market flexibility and their own job opportunities (Kristensen, 1996).

In addition, provisions in general labor agreements for flexible working hours (i.e., flextime) were expanded after 1995. This made it easier for workers to negotiate work schedules with employers at the firm level. It also made it easier for families to juggle the demands of work and family, which enabled more people, especially women with young children, to enter the labor force. On the one hand, this provided employers with a larger pool of workers from which to choose. On the other hand, it gave workers more opportunities for employment. As a result, the Danish labor market was among the most flexible in Europe in terms of work scheduling (European Industrial Relations Observatory, 1998).

The important point here is that although Danish union-density ratios remained among the highest in the world, employers remained well organized through business associations compared to many other countries, and the vast majority of workers were still covered by collective bargaining agreements—conditions that were typical of CMEs—decentralization of bargaining regarding job training, work scheduling, and the like, especially to the level of individual firms, represented another move in the direction of LMEs (e.g., Lash & Urry, 1987, chap. 8). To be sure, decentralization did not signal the complete abandonment of coordinated decision making. However, it was a step in the direction of the LME model. Indeed, Danish decision makers viewed decentralization of this sort as a way to translate a piece of the neoliberal model into the Danish context (Kjær & Pedersen, 2001). Moreover, decentralization infused the system with an additional element of institutional flexibility that better fit the needs of employers trying to adjust to the global economy (Wilthagen & Tros, 2004).

Overall, then, changes in Danish labor market institutions worked insofar as they helped reduce unemployment and afford firms the flexibility required to respond to market signals in ways that can improve socioeconomic performance. Corporatist bargaining, generous welfare programs, and active labor market policies—all typical of CMEs—were part of the story. However, so too was the coupling of already low levels of employment protection with more-stringent activation requirements and decentralized bargaining about issues such as work schedules and vocational training programs—features more closely related to LMEs, particularly insofar as they occurred at the local or firm level. Rather than undermining labor market performance, the institutions involved complemented each other in ways that enhanced it.

Vocational Training and Skill Formation

An extensive vocational training system equips Danish workers with a high level of industry-specific skills. Denmark has long had an extensive apprenticeship program for high school students dating back to the 1890s and programs to continuously upgrade the skills of workers (Sabel, 1994, p. 134). In today's national vocational training system, curricular and other issues are worked out through corporatist negotiations between unions and employers with the state shouldering many of the costs involved.

During the late 1980s and early 1990s, the vocational training system underwent three important changes that resulted in the adoption of elements typically found in LMEs. First, as noted in the previous section, negotiations over the organization of curriculum and some other aspects of the system were decentralized (Martin, 2005, 2006). Second, unions and employers negotiated training agreements through which they collaborated in upgrading the skills of blue-collar workers. Training agreements permitted workers to spend more time away from work in academic courses and training programs of various sorts, often with state subsidies for tuition, wage supplements, and the like. These greater opportunities for training increased the level of competition among technical schools—another move in the direction of LMEs insofar as it infused the system with a degree of market competition. In turn, this elevated the quality of training being offered with effects that reverberated through the economy. Better training enabled firms to introduce new and more flexible types of work organization, such as project teams and lean production techniques. And this enabled firms not only to introduce and adapt quickly to new information technologies but also to search for continuous improvements in production processes themselves without enlarging administrative hierarchies (Kristensen, 1996, 2006).

Third, in conjunction with the active labor market policies and activation discussed above, vocational training was made available to the unemployed on a widespread basis so that they could upgrade their skills while they were out of work. This enabled them to return to employment equipped with new skills and a better understanding of the new flexible forms of work organization that they were likely to encounter on the job. By creating a system that allowed workers to improve their skills during downturns in the business cycle, firms compete more effectively when the economy improves and workers are called back to work (Martin, 2005, 2006;

Kristensen & Zeitlin, 2005, chap. 3). The advantages of this system are especially clear in comparison to Germany, which is also known for its high-skilled labor force (Thelen, 2004). When the German economy experiences a downturn and unemployment rises, vocational training and skill upgrading for those who have lost their jobs is jeopardized. This is because the German vocational training system focuses on workers who are currently employed—not those who are unemployed. By sending unemployed workers for further training, Denmark increasingly used cyclical economic downturns in a more dynamic and creative way (Kristensen, 2006).

We are not arguing that Denmark shifted completely from a CME to a LME vocational training system. However, insofar as LMEs stress vocational training for the unemployed rather than the employed, Denmark again bears a partial resemblance to LMEs. For instance, in the United States, the state's role in vocational training and skill formation has always been quite limited except for its funding of general public education. Vocational training, such as it is, has been left up largely to high schools, community colleges, and the discretion of individual firms (Cappelli et al., 1997; Rubery & Grimshaw, 2003, pp. 112-124; Thelen, 2004). The federal government never really made a strong commitment to job training programs. And when modest experiments with job training occurred, as they did in the 1970s and again in the 1990s in conjunction with welfare reform, they focused on the bottom of the labor market and targeted the unemployed (Weir, 1991, 1998).

In any case, workers are typically very well trained in Denmark. Indeed, by the late 1990s they spent more time in training and skill formation programs than did workers in any other member of the EU (Lorenz & Valeyre, 2004). The benefits of this system were many. To begin with, a high level of skill training enabled workers to move easily among different jobs within and across firms, which, as we have seen, facilitated labor market flexibility. It also afforded Danish firms the ability to leave much decision-making discretion to its workers rather than having to supervise them closely in rigidly bureaucratic ways (Dobbin & Boychuk, 1999; Goul Andersen, 2003). For instance, shop stewards in the metalworking industry invented new payment, training, and job classification systems to increase the flexibility of production and increase the general skill level among workers (Sabel, 1994, p. 136). Such independence improved firm efficiency and productivity. Furthermore, having a well-trained workforce facilitated flexibility, cooperation, and collective learning and decision making among shop-floor workers, engineers, managers, and others (Kristensen, 1986; Kristensen & Høpner, 1994).

Finally, because the Danish vocational training system enabled workers to acquire new skills faster and more broadly than in many other countries, it created incentives for firms to modernize technologically and to constantly improve their production processes and strategies—especially if they wanted to prevent their most skilled workers from leaving for more interesting and promising jobs. As a result, business development and skill acquisition now go hand in hand within Danish firms. This system enables firms to learn and adapt quickly to changing market opportunities and technologies. In turn, this allows them to capitalize on specialized niche markets. The development of Danish wind turbines, now a world leader in the field, is a good example (Karnøe, 1995). This capacity for learning also makes it easy for firms to work with a wide variety of customers—domestically and internationally—and to innovate in response to the demands and requests of these customers (Kristensen, 1996).

In sum, two things are important. First, insofar as Denmark has decentralized the negotiation over curriculum and other features of the vocational and training system, infused the system with more competition among technical schools, and emphasized training for the unemployed, it has taken on characteristics more commonly associated with LMEs. These institutional innovations have complemented traditional Danish CME practices in ways that have benefited workers and employers. Second, this has enhanced the ability to continuously upgrade the skills of workers and, in turn, the capacities of firms to respond flexibly and successfully to the challenges of globalization and the emergent knowledge economy (Kristensen & Zeitlin, 2005, part 2).

Industrial Policy

Consistent with many CMEs, Denmark embraced industrial policy and, more recently, what we call structural policy. By *structural policy* we mean the coordination of policies across a broad range of areas (industrial, welfare, regulation, environment, labor market, vocational training, etc.) in ways designed to improve the performance of the economy as a whole (Kjær & Pedersen, 2001). This should not be confused with *industrial policy*, which is more limited in scope and relies typically on instruments such as government subsidies, loans, credits, and tax incentives targeted to improve the performance of specific industries or firms and facilitate industrial restructuring (Rodrik, 2004, p. 2).

At the end of the 1970s, assuming that Denmark's lackluster performance was because of inadequate technological development, the government devised an industrial policy aimed at improving the technological capacities and, therefore, the competitiveness of Danish firms in world markets. However, beginning in the 1980s, a broader definition of Denmark's competitive problems developed. Central to this was the concept of *structural competitiveness* whereby the competitiveness of Danish industry was seen as being linked to a much wider set of problems and policy areas. These involved not just inadequate levels of technological modernization but also a debilitating orientation on the part of Danish firms to produce for low-growth markets (e.g., processed meats, dairy) rather than high-growth markets (e.g., furniture, business services, medical equipment, information technology) and a general lack of adaptive and innovative capacities in Danish industry. Many people argued that to resolve these problems coordinated efforts were needed in areas other than just industrial policy (Kjær & Pedersen, 2001).

People also believed that there was a need to reform state administrative and regulatory structures in several policy areas. In particular, it was felt that the policy formation process and especially the policy implementation process needed to be decentralized and otherwise streamlined to reduce the sort of bureaucratic sclerosis that many people felt had previously prevented public policy from being more effective. Furthermore, the Ministry of Industry, which had been primarily responsible for industrial policy, became increasingly sensitive to the possibility that the state's industrial subsidies had created disincentives that undermined the ability of Danish firms to adapt successfully to international competition. The Ministry also began to suspect that its own inefficiency, lack of professionalism, and need for modernization had contributed to problems in the Danish economy. Thus, this Ministry and eventually others became increasingly interested in improving the efficiency of the state and the economy. In many cases, this entailed an increased contracting out of state services to the private sector, privatization, and the reduction or elimination of state subsidies to industry (Abrahamson, 2006; Kjær & Pedersen, 2001). Of course, political decentralization, contracting out, and the like were concepts central to the neoliberal programs that many LMEs adopted during the 1980s and 1990s (Campbell, 2004, chap. 5). Now they also became watchwords for the state and policy makers in Denmark, although they did not result in the radical deregulation that occurred in LMEs, such as the United States and Britain.

All of this occurred against a broader background of institutional change that began slowly in Denmark in the 1970s (e.g., Kjær & Pedersen, 2001). First, the old centralized form of CME corporatism was transformed into a more decentralized form. This involved the development of a multilevel system of interest groups and firms participating in policy learning, policy formation, and policy implementation at national and now subnational levels. It also represented a move in the direction of LMEs, which favor decentralized economic decision making (e.g., Lash & Urry, 1987, chap. 8). Second, the corporatist policy process was opened up to a wider array of organized interests. In contrast to traditional tripartite corporatism (i.e., business, labor, state) found in many CMEs, Denmark added actors, such as environmentalists, academic experts, and representatives from professional associations and geographic regions (Marcussen, 2002, p. 142; Pedersen, 2006). This more inclusive form of corporatism helped mobilize political consensus around structural policies. The result was a form of corporatism that improved the capacity to develop collectively shared understandings of international competition and improved capacities to formulate, implement, and fine-tune the structural policies deemed necessary to help firms and industries adapt to this competition (e.g., Molina & Rhodes, 2002).

The important thing to recognize here is that by reforming corporatist institutions in this way, Denmark improved its capacities for policy learning of the sort that can facilitate socioeconomic success (Evans, 1995; Rodrik, 2004). Specifically, these capacities entailed an improved process of information exchange between public and private actors that helped them identify the significant obstacles to economic performance and possible remedies. The system is not one where an autonomous state intervenes to pick industrial winners and losers and then targets them by applying taxes or subsidies, as is often the case with traditional forms of industrial policy. To the contrary, it is an institutionalized strategic collaboration between various actors from the private sector and government—a discovery process where firms, unions, other interest groups, experts, and the state learn about costs and opportunities and then engage in strategic coordination.

As a result of the initial transformation of corporatism and then the emergence of structural policy, there was an increase during the late 1980s and early 1990s in decentralized (i.e., local and regional) structural policy initiatives (Amin & Thomas, 1996; Pedersen, Andersen, Kjær, & Elberg, 1992). These often involved the coordination of industrial policy with policies in other areas, such as labor market policy, R&D policy, vocational training policy, employment policy, and administrative reforms in the public sector (Madsen, 2003). In other words, this was a double movement. On one hand, there was more nonmarket coordination across policy areas, as one would expect to find in a CME. On the other hand, the mechanisms of coordination were less centralized and more inclusive, as one would expect to find in a LME.

In turn, Denmark's institutional complementarities were amplified. For instance, consider the flexicurity system discussed above. Here various aspects of welfare policy were reformed and integrated with other policy areas. As we have seen, receipt of unemployment benefits after a period of time was made conditional on seeking vocational training and job placement assistance. In other words, welfare and vocational training policies were coordinated with each other and with the needs of employers. This was all worked out through rather inclusive decentralized corporatist negotiations among the local employers associations, unions, municipalities, educators, and other relevant professionals as well as representatives from the government (Abrahamson, 2006; Madsen, 2006). Similarly, industrial restructuring policies were linked locally to expansions in vocational training and reskilling programs for workers who would lose their jobs as a result of plant closings or downsizing. This linkage was often forged at the insistence of unions during corporatist negotiations as a quid pro quo for their acquiescence to restructuring in the first place. The effect of these sorts of structural policies was to refocus Danish industry and augment the skills of the workforce in ways that helped to improve the country's socioeconomic performance, such as by facilitating the development of a patchwork of rapidly growing textile, garment, furniture, machine tool, ship building, and other types of industrial districts in the poorer agricultural regions of western Denmark (Sabel, 1994, pp. 107, 144).

To summarize, although LMEs typically reject industrial policy and other forms of state coordination or planning, Denmark embraced it in typical CME fashion and extended it in the direction of even broader structural policies. However, the Danes translated certain aspects of neoliberalism—the ideological cornerstone of many LME policies during the 1980s and 1990s—into traditional Danish CME practice. Corporatist negotiations were retained, but decentralized and made more inclusive; the state coordinated policies across policy areas to improve economic performance but reduced many of its industry subsidies thereby allowing more space for market forces to operate; state functions were also decentralized and sometimes contracted out to the private sector or privatized; and policy makers and the ministries paid greater attention to improving the efficiency of public and private sectors. Judging from Denmark's improved performance during the 1990s, it seemed to help.

Discussion

We showed that classifying Denmark as a pure CME is misleading, particularly in light of recent changes in the Danish political economy. In the areas of labor markets, vocational training, and industrial policy Denmark has considerably more LME characteristics than the varieties of capitalism literature has recognized. Furthermore, blending features from the LME and CME types in these areas created institutional complementarities that helped improve Denmark's socioeconomic performance. Thus, our findings do not support the prediction of the varieties of capitalism literature that relatively pure types of capitalism will outperform hybrid types.

What are the theoretical implications of all this for the varieties of capitalism literature? First, perhaps the pure cases that we discussed are not as pure as we think; that is, the United States, Germany, and Sweden may actually be more hybrid in nature than the varieties of capitalism literature has recognized (e.g., Crouch, 2005, pp. 34-35). If so, then we should not be surprised that their performance is similar to that of Denmark because they would all be hybrids and all would be performing at about the same (presumably suboptimal) levels. In this view, the problem with the varieties of capitalism literature is that its logic is sound—that is, institutional coherence does lead to success—but that its coding of cases is flawed. We recognize that the institutional terrain of national political economies, including relatively pure ones, varies over time and across sectors and industries (Campbell, Hollingsworth, & Lindberg, 1991; Hollingsworth & Boyer, 1997). We also recognize that Germany and Sweden have decentralized and opened up more to market mechanisms during the past 20 years. Nevertheless, we are impressed by the fact that even Kenworthy (2006), who is a critic of the varieties of capitalism approach and who has a better coding scheme than Hall and Gingerich (2004), agreed with how they have coded these three countries as being substantially higher in institutional coherence and, therefore, purer cases than Denmark. Hence, we fail to see much merit in this interpretation of the evidence.

Second, perhaps the varieties of capitalism approach is correct that purer types do better but has failed to see that there may be more than two pure types. Maybe Denmark represents a third pure type. In this view, the varieties of capitalism approach would be sound but fails for lack of imagination. Certainly Denmark's product profile—especially for exports—fits neither the CME (high-quality goods) nor LME (low-cost, innovative goods) types very well. Its strengths are in areas such as up-market meats and cheeses, furniture, wind turbines, and pharmaceuticals, notably insulin. Most of these products do not involve high levels of asset specificity, dedicated equipment, or much high-skilled, specific blue-collar labor as is typical of pure CMEs. However, neither do these products involve marketing based on especially low costs as is typical of pure LMEs. So perhaps the Danish institutional profile is particularly well suited to the manufacturing of products that are not typical of either CMEs or LMEs. And maybe other countries with a similar sort of institutional profile also excel at making products of this third variety. This is plausible but difficult for us to substantiate empirically or speculate about theoretically in the absence of more hybrid cases.

Third, perhaps the varieties of capitalism view is just wrong theoretically. In other words, institutional coherence is not needed for success. In this view, the varieties of capitalism approach would fail on logical grounds. This is closer to our position insofar as we have shown that institutional coherence, as defined by the varieties of capitalism literature, has not been necessary for success in Denmark. However, we are reluctant to abandon completely the concepts of institutional coherence and complementarity. Why? The varieties of capitalism tradition defines complementarity in terms of institutional *similarities*. That is, a set of institutions that coordinate economic activity either by market-based or non-market-based means, but not both, will yield socioeconomic results that are better than hybrid sets of institutions. We accept that this form of complementarity may contribute to strong socioeconomic performance. However, we also recognize that functional complementarity may arise from situations in which very *different* types of institutions coexist in a heterogeneous mix such that they compensate for each other's shortcomings and deficiencies (Crouch, 2005, chap. 3). These are, for example, precisely the sort of complementarities that made the Danish flexicurity system so successful in reducing unemployment. Complementarities based on institutional heterogeneity may broaden the repertoire, knowledge base, and range of choices available to decision makers. In turn, this can afford decision makers high levels of flexibility and innovative capacity that can enhance socioeconomic performance—especially when markets are volatile and product life cycles are short as is increasingly the case under conditions of economic globalization (e.g., Whitley 1999).[2]

The point is that there may be more than one form of complementarity and that researchers need to think much more carefully about what they mean by complementarity and coherence. Indeed, perhaps there really is a third pure type of capitalism, but one that is based on institutional complementarities of difference and heterogeneity rather than similarity and homogeneity. And maybe this type is exemplified by Denmark.

In any case, we agree with those who have called for more attention to hybrid forms of capitalism (e.g., Crouch, 2005; Katzenstein, 2006; Zeitlin, 2003). We hope that this article will help stimulate such inquiry and debate about a subject that has been neglected in the varieties of capitalism literature so far. To that end, we offer two propositions for further discussion and empirical exploration.

The varieties of capitalism literature has provided an institutional theory of how in different ways CMEs and LMEs can achieve socioeconomic success. What about hybrids? Why might they be successful too? Insofar as institutions are concerned, in Denmark increasing institutional flexibility emerged as the basis on which improved socioeconomic performance rested. This was accomplished in two complementary ways. First, following the LME model, actors were increasingly exposed to market forces (e.g., reduced state subsidies to firms, increased competition among technical schools, activation policies, low employment protection, etc.). This increased the sensitivity of firms, workers, and others to new production and employment opportunities and enabled them to pursue these opportunities. Second, following the CME model, collective decision making and learning were preserved; however, they were also decentralized in ways that were reminiscent of the LME model (e.g., local negotiations over worker training, work schedules, corporatist bargaining, structural policy, etc.). This helped firms, workers, and other actors better identify problems and opportunities, such as by tailoring vocational training programs to the needs of local firms and workers, including the unemployed; by creating new industrial districts in poorer parts of the country; and by developing niche markets such as wind turbines. Increased market exposure combined with decentralized collective learning and decision making increased the institutional flexibility of the Danish political economy in ways that helped improve its performance overall. These may be the key institutional mechanisms that facilitate success for hybrid forms of capitalism. In other words, greater exposure to market forces coupled with decentralized, but still coordinated learning and decision making may provide the complementarities of difference and heterogeneity that we alluded to earlier.

Without further in-depth comparative research we cannot be sure; however, the experiences of other successful hybrid cases may lend support to this argument. For example, Finland and the Netherlands revitalized their moribund economies during the 1990s and pursued these two strategies to a degree. Finland liberalized its systems of corporate finance and governance, encouraged the development of equity markets, attracted considerably more foreign venture capital, deregulated some sectors of the economy, cut taxes, and reduced subsidies to business—all of which increased the level of market exposure for economic actors. However, all of this was the result of corporatist bargaining at the national level, which also led to wage restraint, more public spending for R&D, and educational improvements—initiatives that fueled the emergence of Finland's world-class information and communications technology sectors. However, although corporatism remained more centralized in Finland than other countries, corporatist decision making in some areas (e.g., work scheduling, merit pay systems) was decentralized to the industry and firm levels in ways that afforded firms greater flexibility (Moen & Lilja, 2005; Ornston & Rehn, in press).

In the Netherlands, decision makers cut taxes and pursued a series of neoliberal welfare reforms, including benefits freezes, tighter eligibility requirements, a lower minimum wage, and other measures that increased market exposure, especially for workers. Again, much of this was negotiated through revitalized corporatist institutions, which also led to wage restraint. Policy makers also decentralized the corporatist institutions that managed experiments with active labor market policies. These helped reduce unemployment, but not enough among young workers and minorities to satisfy politicians who eventually curtailed these experiments (Visser & Hemerijck, 1997).

To reiterate, our claims about the beneficial mix of market exposure and decentralized corporatism require more detailed scrutiny in light of other cases. Nevertheless, the benefits that we identified as resulting from this blend of LME and CME principles were numerous for Denmark. They contradict the assumption of the varieties of capitalism literature that institutional complementarities are less likely to be found in hybrids than in purer types of capitalism. And they raise new questions for research. For instance, do some elements of LMEs and CMEs work better together and yield more institutional complementarities than others? Are hybrid complementarities limited to the three areas we examined or are they also found in other areas identified as important by the varieties of capitalism literature, such as industrial relations, corporate governance, welfare policies, and interfirm relations? The literatures on social systems of production (e.g., Hollingsworth & Boyer, 1997; Morgan, Whitley, & Moen, 2005) and welfare states (e.g., Zeitlin, 2003) may offer insights in this regard. Finally, do hybrids tend to balance economic performance and social inequality better than purer forms? Addressing these questions will enrich the varieties of capitalism agenda.

Notes

1. To be fair, some varieties of capitalism theorists are well aware of variations in institutional arrangements within CMEs. In particular, Soskice recognized that Denmark is a case of low employment protection and high unemployment protection (Estevez-Abe, Iversen, & Soskice, 2001), a situation that is characteristic of precisely the sort of hybridization to which we are referring and that we discuss at length below. He also recognized that centralized systems of collective bargaining and wage determination in the Scandinavian CMEs have given way to industry-based systems like that of Germany (Soskice, 1999). Yet when it comes to constructing the CME and LME typologies, he tended to ignore these things. This, of course, raises the question of how much institutional variation on these (and other) dimensions within types is compatible with the strict CME-LME distinction. This is a question that has been largely neglected in the varieties of capitalism literature.

2. For further discussion about different types of institutional complementarity, see the symposium on Institutional Complementarity and Political Economy in *Socio-Economic Review*, *3*(2), 2005.

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