1. Introduction

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THE RELATIONSHIP BETWEEN ECONOMY AND SOCIETY

One of the classical ways in which the social sciences have studied the emergence and consolidation of capitalism has been through the analysis of the relationships between social institutions and economic institutions. As a pioneer in this respect, Max Weber contributed two major insights. One is the importance of individual beliefs, evidenced by the effects of the Calvinist version of protestant ethics on entrepreneurial attitudes. The other is the relevance of associations, demonstrated by the analysis of the relationship between the development of capitalism and the presence of protestant sects in American society. Religious beliefs and religious associations for Weber constituted crucial factors that underline the deep social and institutional roots of economic development processes (Weber 1978). Karl Polanyi, building on these insights, showed that the market, often seen as the economic coordination mechanism *par excellence*, is only one of the mechanisms regulating economic exchanges. Other such mechanisms include redistribution, including a key role for the state, and community relations, with the community playing a fundamental regulating role also in contemporary societies (Polanyi 1957). And also Albert Hirschmann underlined how the analysis of social variables like *exit* and *voice* has important explanatory power in the study of the functioning of economic phenomena and relationships (Hirschmann 1970).

The relationship between economy and society has been important also in more recent work by, for example, Mark Granovetter or Margaret Grieco, who show how the workings of the labour market and the labour market success of individuals are influenced by social, relational resources in the form of strong and weak social ties (Granovetter 1973; Grieco 1987). They underline that a person's labour market position does not depend solely on his or her competencies but also, or rather, on the social networks of which he or she forms part. Others have demonstrated the relevance of interest representation organizations in determining the shape contemporary capitalist models have taken (Crouch 1993; Schmitter and Streeck 1999). The presence of a small number of large and strongly inclusive organizations geared towards representing not only the interests of their members but also the general interest has favoured the emergence of neo-corporatist models of capitalism. In these models the state shares political space with these organizations which use internal discipline to supplement government authority to bring order to the economy and in exchange see certain private arrangements virtually acquire the status of public authority. They are contrasted with pluralist models in which a high number of fragmented organizations representing specific interests compete to influence politics. Other research has highlighted other examples of social variables playing an important role in the functioning of the economy, such as the family or social capital.

CAPITALIST DIVERSITY AND INSTITUTIONAL CHANGE

This volume addresses the relationship between economy and society and the influence of social institutions on economic processes, examining this relationship from a variety of perspectives. It highlights in particular two dimensions. One is comparative. From a comparative point of view different mixes between economy and society can be observed that produce a range of capitalist diversity, that is, different national models with deep historical roots and different competitive capacities. This diversity concerns a wide variety of institutional arenas, ranging from industrial relations systems and labour market and training policies, to education systems and the role of the families, to corporate governance architectures and corporate financing structures, and so on. Based on the exploration of these institutional arenas, many recent studies have developed typologies of models of capitalism, often largely reflecting the extent to which market mechanisms are central to the coordination of economic and social processes. Main examples of such typologies are the distinction between Anglo-Saxon capitalism and Rhenish-continental capitalism (Albert 1991), between models based on diversified quality production, flexible specialization and flexible mass production (Crouch and Streeck 1997; Piore and Sabel 1984), between Asian and Western economies (Dore 1987; Whitley 1999), or between coordinated market economies and liberal market economies (Hall and Soskice 2001). Whereas these studies mainly deal with national models of capitalism, others have also identified major differences in the relationship between economy and society, as well as of the role of market mechanisms at the sub-national level, that is, at the level of sectors (Hollingsworth and Lindberg 1985; Crouch et al. 2004) or regions (Crouch et al. 2001).

Identifying different models of capitalism, often based on the different extent to which economies and societies are exposed to market mechanisms, is one of the major research questions in the study of capitalist diversity. Another is the question to what extent this diversity corresponds to differences in economic performance. Since the 1990s there have been four main lines of research concerning this question. The first has shown that there are multiple routes towards economic competitiveness and that different mixes of economic and social institutions can have similar outcomes in terms of the overall performance of the system (Berger and Dore 1996). The second, influenced by the contributions of major international organizations, has adopted a more neo-liberal vision and has tried to demonstrate that countries that are more exposed to market mechanisms are also more competitive. The third has underlined rather that institutional constraints to market forces can have beneficial effects on economic competitiveness, fostering in particular the development of models based on high levels of quality and diversification (Crouch and Streeck 1997). And finally, there are a series of contributions that argue that certain models of capitalism are more competitive in economic activities centred on incremental innovation, whereas others, more exposed to market regulation, are more competitive in activities based on radical innovation (Hall and Soskice 2001; Hancké et al. 2007). Clearly, these groups of studies take distinct views on the relationship between types of capitalism and performance. They coincide however in their observation that social institutions play a determining role in the functioning of capitalism and that if we exclude such social institutions from the analysis we will not be able to properly understand the workings of these models.

The second dimension, next to the comparative one, is the observation that the various models of capitalism are not necessarily stable over time but that they can change, and that the results of such change can be small adaptation but also radical transformations. For example, the New Right of Margaret Thatcher radically altered the institutional make-up of the United Kingdom of the 1970s, dramatically increasing the role of the market. In more recent years, in many European countries, changes have been made to the welfare state, which then also affect the functioning of the capitalist model (Ferrera et al. 2001). The same could be said for reforms of the labour market (Esping-Andersen and Regini 2000). What these examples indicate is that apart from the characteristics of different models of capitalism, it is of great importance as well to study how capitalist economies and societies change (Streeck and Thelen 2005; Campbell

2004). This includes the study of the relationships between economy and society, which are also not necessarily stable over time, as well as of social causes of economic change. Among the elements that lead to such changes of major importance are contradictory interests that lead to conflicts between (groups of) actors; such conflicts can then result in institutional change (Crouch 1993). Through the confrontation of diverging interests, enterprises, interest representation organizations, local and national governments, EU level entities and others contribute to incremental or radical changes in the prevailing institutional features of capitalist models (Crouch 1993; Schmitter and Streeck 1999). Apart from interests, the confrontation of different ideas can also play a prominent role in causing such changes (Boltanski and Chiapello 199l). A good example of this has been the widespread promotion of privatization and liberalization, and the accompanying efficiency rhetoric, in most European societies. These processes have affected strategic sectors like local public services, telecommunications, transport, and so on. In many cases these reforms were advanced following the belief that private management of public goods would bring higher quality services and more efficiency expressed in lower prices. However, in many cases the increased role of the private sector has not automatically resulted in cheaper and/or higher quality services (Keune et al. 2008). Similarly, labour market flexibilization has often been forwarded as a solution to competitiveness problems, unemployment or the growth of the informal economy. Also in this case the results of ongoing flexibilization have often not matched the expectations. Interests and ideas are however not always easy to disentangle: ideas play a key role in the definition of interests, while interests may lead certain actors to promote corresponding ideas. Also, gradual and radical changes are not always easy to distinguish: multiple moments of gradual change may in the end add up to radical changes (Streeck and Thelen 2005). Finally, a major factor that can spur actors to seek changes is an altering context in which a national or regional model operates. Indeed, many such changes are justified by actors referring to factors such as globalization, technological change or European integration.

THE GOVERNANCE APPROACH

We have highlighted two major dimensions of the study of contemporary capitalism here: (i) the prevalence of a variety of models of capitalism with different relationships between economy and society; and (ii) the occurrence of changes in these models as actors confront their ideas and interests and react to changing contexts. These two dimensions guide the analysis in the chapters in this volume, as they lead us to take a broad analytical approach, taking into account the direct and indirect relationships between multiple institutional arenas as well as the role of a range of modes of regulation. We take much of our inspiration from what is sometimes defined as the 'governance approach', that is, a strand of research that studies the role of and interaction between various forms of governance pertaining to society (such as the community, the family, social networks or associations), to the economy (such as corporate hierarchies or the market) and to public actors (the state at its various levels) (Hollingsworth et al. 2002; Crouch 2005). This strand does not aim to fit empirical cases to predefined typologies but rather considers to what extent these forms of governance are present in different empirical realities and how they interact. This allow us to draw up the 'chemical composition' of empirical cases (Crouch 2005) and to make social analysis more scientific following the analogy of chemical and biological analysis, by, instead of asking to what type a case corresponds, asking what types of governance can be found in the case, in what proportions and how this changes over time (Crouch 2007). This helps us not to define a case by a sole dominant characteristic but to approach it as a complex of various modes of governance with different weights that can change over time (Crouch and Keune 2005). In this way, we can, for example, determine if the UK model of capitalism is indeed dominated by market regulation or if oligopolistic competition between large enterprises plays an important role as well (Crouch 2005). Or we can study if the Germany model of the 1980s still persists today or if it is progressively transformed into something profoundly different (Streeck 2009). It also allows us to show the role of social institutions in explaining processes that in the first instance seem to have only economic causes, for example, the recent crisis (Crouch 2008).

Hence, this approach is broad and dynamic and provides a more complex and realistic image of contemporary capitalism than the simplistic view of neo-classical economics. It also helps us to formulate more credible and accurate explanations for changes we observe. This may be the reason why in recent years more and more economists have started to introduce social institutions in explaining phenomena such as economic transactions (Williamson 1985) and the functioning of the labour market (Solow 1992).

THE CONTRIBUTIONS IN THIS VOLUME

Based on the above outlined approach, the contributions to this volume expose the characteristics and transformations of the institutional architectures of contemporary European societies, covering a wide range of themes that are strongly interrelated. Focusing on different arena, from European integration to welfare reforms, from labour market and gender relations to the university system, from industrial relations to the role of the central state, from local and regional regulatory mechanisms to the views and interpretations of economic crisis, it will be possible to see how the mobile boundaries between economy and society have changed in European countries during the 2000s. The reaction to global pressures such as the 9/11 in 2001 or the 2007 financial crisis, the consequences of European political integration and endogenous variables and mechanisms triggered a series of processes of restructuring that modified the basic functioning of many institutional arenas considered in this book.

In particular, in Chapter 2, Keune examines the social content and social effects of European integration, both in terms of the development of European social standards and in terms of domestic social policy capacity. Following Hooghe and Marks (1999) European integration is pictured as a contested process between groups of actors with projects based on different ideas and interests: one is the neo-liberal project pursuing European-wide market integration while at the same time trying to insulate the market from political interference by resisting the creation of a European polity and rejecting the development of positive market regulation; and the other is the project for regulated capitalism, which wants to see market integration accompanied by positive market enhancing and market-supporting regulations to create a social democratic dimension to European governance. It is first of all demonstrated that although European integration was originally solely of an economic nature, over the years an important body of labour market and social Directives has been adopted and, since the late 1990s, there has also been a growing use of experimental forms of governance in the labour market and social field. At the same time these regulations are fragmentary, largely complementary to national regulations, and they fail to make up a coherent or comprehensive social or labour market model. The core regulatory level for social and labour market issues remains the national level. This is in stark contrast with the deep and comprehensive economic integration that has dominated the European project. Overall, then, it seems that the social dimension of European integration is quite limited, especially where its function of limiting the role of the market is concerned.

Where the effect of EU integration on domestic social policy capacity is concerned, the Internal Market and European Monetary Union (EMU) may have positive and negative effects. On the one hand, they may lead to higher economic dynamism and growth, and to more macro-economic stability. In this way, they may help safeguard the welfare state. On the other hand, they foster regime competition, affect the power balance between workers and employers in favour of the latter, foster wage moderation and put limits on social expenditure. These developments clearly put social standards and policy-making capacity under pressure and undermine achievements of the past. This effect differs substantially between countries, however, depending on domestic institutions, power constellations and actor strategies. Also, the character of the integration process itself has changed over time and may do so again in the future, acquiring new directions. In Chapter 3, Hemerijck provides a detailed analysis of how ideas concerning the role and development of the welfare state have changed in Europe since World War II and how this resulted in profound institutional change. After the war, the 'Golden Age' of organized welfare capitalism, class compromise and embedded liberalism began, buttressing democratic governance and complementing the market economy with human solidarity. Far from being polar opposites, open markets and organized solidarity prospered together. However, in the wake of the oil shocks of mid- to late1970s, a period of welfare retrenchment and neo-liberalism took off with the elections of Margaret Thatcher and Ronald Reagan, which epitomized the revival of self-regulating markets. They were inspired by monetarist and neo-liberal ideas voiced by increasingly influential neo-classical economists. Together, the supply-side revolution in economics and the politics of neo-liberalism fostered a deliberate change in the hierarchy of social and economy policy objectives in favour of the latter. Also, where the postwar welfare state was designed essentially to provide the institutional underpinning for an economy organized around stable industrial employment relations, the common quest in the wake of the two oil shocks became that of enforcing more flexible employment relations. The key policy recipe of neo-liberalism was to free markets, institutions, rules and regulations from the collective political decision-making that had been the norm under embedded liberalism.

Finally, by the end of the 1990s, political disenchantment with neoliberal policy measures began to generate electoral successes for the centre-left that believed that most European welfare states had to be transformed from passive benefits systems into activating, capacity building, social investment states. They were soon joined by the Organisation for Economic Co-operation and Development (OECD) and the European Commission. This policy platform was inspired intellectually by Giddens, Esping-Andersen and like-minded academics who argue that the 'passive' male breadwinner policy legacy frustrates a more adequate response to the 'new' social risks of the post-industrial economy. At the heart of the social investment paradigm lies a re-orientation in social citizenship, away from *freedom from want* towards *freedom to act.* Citizens have to be endowed with capabilities and high levels of employment for both men and women should be the key policy objective. And whereas neo-liberal doctrines demanded a trade-off between these goals, the social investment paradigm sees improved social equity go hand in hand with more economic efficiency. Key social policy provisions can be viewed as investments, potentially enhancing both social protection and productive potential. While social investment advocates share the neo-classical critique of the postwar welfare state when emphasizing the supply-side, they do see a key role for the state.

Based on this analysis, Hemerijck argues that each phase of welfare state development can be conceptualized as a distinct policy advocacy, designed to effectively respond to impending socio-economic challenges and to achieve shared policy objectives, supported by fairly robust political compromises. The moments of fundamental policy change are often associated with successive waves of economic adjustment and deep economic crises especially provide important political windows for policy redirection by newly-elected politicians with radically different ideas. He also underlines the importance of intellectual developments in developing new policy paradigms by offering political actors convincing analyses of the problems of the day and direction to new policy approaches.

Although the European Union repeatedly proclaims a commitment to gender equality, and indeed equal opportunities regulations are among the most important aspects of 'Social Europe', the common definitions of 'European Social Model' are gender-blind. If the vague 'European Social Model' is, for the sake of economic rigour, to be redefined as 'a specific case of "mid-century social compromise"' (Crouch 1999), then it has to be added that this was not just a political and industrial relations compromise between state, employers and employee organizations. It was also, as Jurado-Guerrero, González López and Naldini point out in Chapter 4, a gender compromise between men and women, especially in the distribution of labour. O'Reilly and Spee (1998) proposed an analytical framework to integrate three interdependent arenas of exchanges that have been all too often studied separately: welfare state, industrial relations and gender relations (especially with regard to childcare). Indeed, it is impossible to understand the developments in one of these arenas without considering simultaneous changes in the other ones. In their chapter, Jurado-Guerrero, González López and Naldini propose an empirical application to the case of housework sharing between men and women. Given that the most important change in the labour markets of industrialized societies in the last 30–40 years has been the near-doubling of female employment in the formal economy, they expect major changes to emerge also in the sharing of unpaid work. However, the data indicates that the share of men performing an equal share of housework is still very low. This finding has two important implications. First, it confirms the importance of social embeddedness of the economy: what happens in the formal economy depends largely on what happens in non-monetary social relations. Second, a gender approach suggests a much deeper insight in the meaning of 'crisis'. The 'crisis' of social models, first of organized capitalism and, with the latest financial crisis, of 'privatized Keynesism', may well have deeper roots in unresolved contradictions not just in capital–labour relations, but also in gender relations.

A blind spot in the analysis of models of capitalism is constituted by universities. This is surprising since they play a critical role in cultivating social-political elites, in educating members of various modern professions, and in forming society's technological knowledge base. Moreover, academic scholarship at universities shapes cultural debates as well as political, social, and esthetic categories. As a result, the way institutional systems of higher learning are set up has fundamental implications for the organization of capitalist systems, touching on many of the critical institutional outcomes with which scholarly debates in the political economy literature have been concerned. Yet, scholars in the political economy literature have to date shown little interest in examining how the national frameworks governing these institutions affect the capitalist enterprise beyond their role in vocational training. In Chapter 5, Simcha Jong addresses this blind spot by examining how national systems of higher learning work together with other institutions in national political economies in producing social and economic outcomes. He focuses his analysis on the Conservative university reform movement of the 1980s and 1990s. He shows how the relationship of universities to the state and the economy in Britain has changed over the past decades as part of the broader neo-liberal shifts in the political economy of the United Kingdom. Based on his analysis, Jong identifies three dimensions along which the institutional set-up of national systems of higher education shape contemporary capitalist societies. First, like other civic institutions, autonomous scholarly communities at universities form a potential counterweight to the power of the central state and forces of free marketeering. British scholarly communities played such a role up until the dawn of the Thatcher era. The Conservative university reform movement was in part an attempt to quell political dissent that was linked into a broader political agenda to weaken the position of civic institutions, and reassert the power of central government. Second, the set-up of academic institutions plays a role that complements the role of labour and financial institutions in the governance of economic life in capitalist systems. These shifts were integral to a broader shift in the British capitalist system towards a greater reliance on private, market-based governance models in the economy. The re-orientation of the academic system towards more utilitarian goals was explicitly linked by the Conservative reform movement to the empowerment of private enterprising at the expense of coordinated models of governance in the British economy. Third, the institutional set-up of national systems of higher learning potentially plays a role in supporting the competitive advantage of firms in certain industries. As universities have come to play an increasingly important role over the past decades in cultivating the expertise and skills firms require in gaining a competitive advantage in today's so-called knowledge-based societies, the world of academia has become critical in supporting the economic performance of firms in a range of high-tech sectors.

Moreover, the reforms promoted by the governments of Margaret Thatcher and John Major are not only relevant for the study of the British political economy but had an impact well beyond the United Kingdom. In fact, the Conservative university reform movement has probably introduced the most important institutional changes to institutions of higher learning since the rise of the American research university and the transformation of universities into institutions of mass education during the postwar decades. The institutional changes pushed through by this movement have guided university reforms in countries around the globe, leading to a transformation of the relationship between universities and the national political economies of which they are a part.

Contrary to universities, the labour market has always been a privileged focus for studies of the boundaries between economy and society, because of its unique nature. As institutional economists (Kerr, Solow, Commons) have pointed out, a market, in theory, requires four prerequisites: an anonymous good, exchange between equals, price leading to equilibrium, and economic rationality. The labour market clearly fails on all four tests, and therefore does not deserve the definition of 'market'. This point has been best outlined in Polanyi's (1944) critique of labour as a 'fictitious commodity', an idea that has been adopted by the Philadelphia Declaration of the International Labour Organization (ILO), declaring that 'labour is not a commodity'.

Among the contributions of social theory to the understanding of the labour market, that by Claus Offe (1985) is particularly important, including the analysis on the logics of association of employers and employees, and the observation of the indispensible role of the state. Both associations and state have been the focus of a large 'industry' of 'corporatism' studies, launched in the 1970s by Schmitter and Crouch in particular. Since the late 1980s, as capitalism was apparently being 'disorganized' to an unprecedented level, and even more later on as the idea of 'globalization' came to the fore, corporatism and the state have received less attention. In Chapter 6, Meardi reassess the relevance of some classic ideas of national industrial relations and national state traditions, against a background of increased internationalization and, specifically, Europeanization of employment policies.

Internationalization and Europeanization have often taken the form of a search for a 'one best way' of regulating labour markets. This was evident in the 'flexibility' recipe of the OECD Jobs Study of 1994, which has been the object of systematic criticism by sociologists and institutional economists: flexibility does not guarantee a more efficient equilibrium and may well have negative effects on training, commitment and equality (Esping-Andersen and Regini 2000). Indeed, labour market reforms in the 1980s and 1990s have been associated with major changes in equality: in France, a country which under successive socialist governments intensified regulation, especially through the minimum wage, inequality fell, while in the UK and the US, liberalization led to the opposite result (Koeniger et al. 2007). As Marx and Weber had equally pointed out, the labour market is a privileged arena for social stratification.

More recently, in Europe internationalization of 'one best way' employment policies has taken the form of the promotion of the more ambiguous 'flexicurity' by the European Commission. Again, attention to institutions and social effects has raised a number of criticisms (Keune and Jespen 2007; Burroni and Keune 2011). In his chapter, Meardi indicates that although there is a converging trend among European countries, it is more towards flexibility than security and its timing and forms do not correspond to EU initiatives. Therefore, the weight of supranational institutions should not be overstated. By contrast, there is evidence of national variations and of resilience of national styles of labour markets and industrial relations, which had been described in historical depth by Therborn (1986) and Crouch (1993) before the beginning of the European Employment Strategy and the OECD Jobs Study. Indeed, the recent financial crisis has provided further evidence of the relevance of national institutional arrangements: similar falls in economic output have had very different effects on employment depending not only on economic structures (e.g. the weight of the construction sector), but also of institutional arrangements of different countries. Hyper-flexible labour markets of Ireland, Spain, US and the Baltic states witnessed a major jump in unemployment, while Germany, through social-political agreements on short working time, avoided it, and other countries such as Italy, France and the UK had a more mixed result.

However, the evidence of enduring national traditions must not be confounded with deterministic path dependency and lack of change. Some institutionalist approaches, and in particular the 'Varieties of Capitalism' approach (Hall and Soskice 2001), have been criticized for their excessive functionalism, stressing complementary coherence between institutions. As Chapter 4 by Jurado-Guerrero, González López and Naldini indicates, the same variety of capitalism may well hide huge differences in how work is actually organized, and in particular contradictions between female and male work. Moreover, as argued before, national systems do change, and not just in an incremental, specializing way (Streeck and Thelen 2005; Crouch 2005). The chapter by Meardi deals with this issue by developing a critique of typologies of industrial relations 'models', and adopting instead the less rigid concept of 'styles', noticing that industrial relations actors have different, contradictory and changing strategies within each 'model'.

The balance between 'structure' and 'agency' in studies of society and economics is indeed particularly problematic as the role of actors generally receives too little attention. In Chapter 7, Erne addresses this issue most directly by looking in particular at the role of trade unions in Europe in the light of the recent of economic crisis. This is not a new concern: during the crisis of the 1970s, following the oil shock, Crouch and Pizzorno (1978) produced an exemplary comparative analysis of trade union activities throughout Western Europe. A historical perspective is therefore very useful, as well as caution on making any prediction – not exactly the main task for social scientists. Erne provides in his chapter is a critique of dominant economic ideas from the point of view of democracy, an idea that also appeared in the works of Crouch (2004, 2011). The economic crisis has indeed highlighted new contradictions between economy and society, and therefore, Erne argues, opened up more scope for social actors' action. The relationship between economy and society comes to the fore possibly most clearly when examining the role played by the state and in particular the process of state restructuring. Even if the ongoing process of recasting the state led to important changes in the nature and features of the policy instruments adopted by the state, there is a general agreement that the state continues to be one of the most important governance mechanisms and its action strongly influences the relationship between economy and society in contemporary capitalism. Chapter 8 by Patrick Le Galès is particularly important in understanding these changes and relationships. Le Galès stresses that the state continues to be a very important actor and that the withering away of the state is not a central issue anymore. Politics makes an important contribution to the definition of the boundaries between economy and society (Polanyi 1957; Streeck 2010) and for this reason the focus on the 'action' of the state in terms of policies and policy instruments is useful to understand socio-economic change in contemporary societies. By this point of view, the two examples that Le Galès underlines in his chapter are particularly useful: on the one hand, he focuses on the pervasive use of new public management practices and, on the other, on the set-up of participatory practices of government at local level.

An example of the first trend is given by the attempts of the Blair and Brown governments to regenerate the public sector, providing better services with a strategy that had many elements in common with the previous Conservative governments: they are all based on the importance of statistical measures, indicators and objectives for evaluating the results or improvements in performance, largely inspired by public choice economics. From this point of view, New Labour simply systematized a way of steering policies on the basis of performance objectives and strict financial control, developing a large series of synthetic indicators. In a few years, universities, schools, hospitals and local governments were subjected to a system of incentives and sanctions based on aggregated indicators, whereas the logic of auditing and inspection progressively led to more standardization, with a growing attention to pursuing a good performance according to the system of evaluation and a minor attention to the creation of public goods.

Auditing practices have now a high legitimacy in the UK and affect a large part of the society and influence the way of organizing public policies, political parties, agencies, schools and associations. They are also notable instruments of power for governments that can modify the indicators relatively easily, obliging individual and collective actors to 'run along behind instruments that are constantly changing in the name of efficiency and rationality'. Focusing on these instruments it is possible to note how the culture of auditing influenced the relationship between economy and society promoting specific behaviour and policy approaches and influencing the contents of public policies.

The second example is related to the new instruments of governance that triggered the mobilization of actors in the making of collective goods. Le Galès stresses the importance of practices set up by the state that favour deliberation and participation and the emerging of a quasi-contractual policy making based on agreements and pacts among individual and collective actors. These processes are evident in many cities and regions reacting to the pressures of globalization, where local and regional governments decided to share political space with other economic and civic organizations to regulate the territory. Even in this case, the action of the state directly contributes to creating opportunities and constraints as well as to promoting new forms of participation that modify the equilibrium between economy and society at local level.

The role of the state and the importance of the territorial level of regulation emerge also in the contribution of Ulrich Glassmann (Chapter 9). He focuses on the responses of coordinated market economies to increasing international competition. Glassmann emphasizes that these responses are based on a twofold process of fragmentation, caused on the one hand by a policy shift towards exclusively regional support of traditional manufacturers (spatial fragmentation) and, on the other, by domestic deregulation furthering a dual labour market (institutional fragmentation). Spatial fragmentation is increasingly affecting countries such as Germany that until the 1990s were characterized by a relatively homogeneous production regime across regions. In recent years traditional manufacturing activities strongly declined and many local economies specialized in technological activities typical of liberal market economies, such as life sciences, biotechnologies, communication technologies, and so on. To support this kind of specialization, regions need support in terms of collective competition goods (Crouch et al. 2001, 2004), but the public infrastructure is designed to support production for traditional markets. For this reason, there is space for regional institutions to deviate from the national regulations, leading to the emergence of political entrepreneurialism that promotes territorial specialization and differentiation. At the same time, this differentiation is also reinforced by the action of many Länder governments that abandoned their equalizing spatial support measures to reinforce competitive advantages of dynamic areas. Thus, economic restructuring and public policies promoted a rising territorial fragmentation. Institutional fragmentation is caused by the progressive erosion of industrial relations with a decline in coverage and decentralization of collective agreements and the spreading of atypical employment (part-time, temporary and self-employment).

According to Glassmann, territorial fragmentation emphasizes the divide between rich and poor regions, while institutional fragmentation leads to a rising income inequality: these two processes overlap, reinforcing competitiveness of traditional markets and prosperous regions, but also creating social exclusion and regional decline of weak regions. Thus, the role of the state in terms of public policies and the action of collective organizations contributed in recent years to modify the architecture of social inequalities in coordinated market economies.

Even if the role of the state continues to be important, the analysis of local and regional governance shows that also others governance forms are playing a very important role. Chapter 10 by Luigi Burroni compares local governance models in the United Kingdom, France and Italy. It shows that these cases have different regulatory architectures, where firms, interest organizations, development agencies, local communities, the voluntary sector and local governments interact to produce competitive advantages for local firms. In the United Kingdom large firms, development agencies and public–private partnerships are the dominant forms of governance; this model finds its roots in a process of reorganization of public policies aimed at weakening the power and the autonomy of local councils, and in the growing legitimization of new public management practices. Thus, even if relevant changes in urban policies occurred in the last 20 years, it is possible to identify some pillars that continue to be the key feature of the UK model during this period: the promotion of competition in the provision of local services, the reinforcement of local and regional agencies and the encouragement of private–public partnership.

The French model of urban governance continues to be characterized by the dominant role played by the state, both at central and local level: the local coalitions of actors/organizations of this governance architecture tend to be mono-centric, with the local state monopolizing the political space devoted to the creation of common goods and the participation of local associations or private organizations is promoted directly by the local government and regulated by formal instruments (such as contracts and plans). Development agencies and partnerships are led by state actors. Together with the state, large firms play a very important role in the provision of collective competition goods directly providing them and influencing the strategies of local and regional governments.

The Italian case is more heterogeneous, as it is characterized by very relevant territorial disparities between northern and southern regions in terms of economic performance, governance structures and outcomes. Burroni shows that in Italy a model of local neo-corporatism prevails in industrial districts. This model is based on social concertation and is characterized by development-oriented coalitions formed by local governments, trade unions and employers' associations that produce mainly sectoral competition goods aimed at promoting economic development. At the same time, many cities are characterized by a more deliberative process of planning, where an incremental negotiation promotes the rise of heterogeneous groups of actors composed of experts, politicians and practitioners who share a common vision of the world: the outcome of this process is a plan that delivers a 'vision for the city', based on the identification of long-term needs, priorities, objectives and measures. In this case, the process of negotiation is more similar to a sort of experiment of deliberative democracy than to local corporatist pact and it aims to promote economic competitiveness but also many other kinds of common goods.

All this shows that in these three countries there is an important relationship between economy and society at local level: single firms, local political actors such as the local government, local organization such as unions and employers' associations and organization representing civil society directly contribute to the set-up and distribution of local competitive advantages that influence the competitiveness of local firms.

As many of the above-mentioned chapters have shown, to understand the changes of contemporary capitalism it is important to take into account the role played by economic actors and organizations, such as firms or interest organizations, but also to focus on the role of non-economic institutions, such as families or the voluntary sector. This path of research helps to explain which kind of regulation characterizes contemporary societies, and how, why and when a specific model emerges in some places and not in others. However, overlooking one of these dimensions may give rise to relevant misunderstandings of the processes and changes that characterize modern society. This is what happened with the recent economic crisis: as Chapter 11 by Henry Farrell shows, research approaches based on mainstream economics became highly path dependent and were not able to predict the crisis, and had little useful to say about it in its early stages. According to Farrell, these difficulties are related to the impoverished view that mainstream economics has of institutions, as a result of which it is not well suited to deal with changing societal conditions. This may also explain why economists converged on the solution of neo-Keynesianism, even if it did not provide a clear understanding of the origins of the crisis, instead of engaging in a costly and difficult search for alternative explanatory frameworks. According to Farrell, this is unsurprising given the distance between mainstream economics and those fields in the social sciences that include the role of social institutions in their analysis and that therefore have had alternative explanations to offer. Furthermore, as has been shown recently (Streeck 2010), the focus on the interplay between economy and society may help to identify the main features of contemporary capitalism and to understand its recent changes.

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