

# **Varieties within capitalism?**

A comparative study of French and Italian savings banks,  
1980-2000

**DRAFT – Not for quotation**

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**ABSTRACT:** This paper questions the neo-institutionalist account of the persistent varieties of capitalism through a comparative study of the French and Italian savings banks sectors. According to neo-institutionalism, national capitalisms resist convergence pressures because of the interplay of economic and political institutions. Neo-institutionalists identify path-dependence as the main dynamic behind this resilience of national capitalisms. Although this theory has allowed to move beyond the simplistic, dichotomist views of globalization by introducing institutions and embeddedness into the equation, it presents many flaws as well. First, it fails to understand the mechanisms by which agents conform, resist or undermine the existing institutional frameworks, thus overestimating the homogeneity of systems; secondly, it overlooks the many 'paths' change may take. This paper highlights those weaknesses through the empirical analysis of the French and Italian savings banks over the past three decades, relying on quantitative (with longitudinal data on banks performance and balance sheet structure) as well as qualitative data (with 40 interviews with savings bank staff in both countries). Findings show, indeed, that the two cases under study are far from being homogenous and coherent. Moreover, this internal incongruence seems to last over time. At the same time, however, there is some degree of internal convergence towards similar business practice and organization.

## Introduction

The world of finance has changed fast over the past decades: the end to capital controls in most industrial countries, the rise of information technologies, the increased resort to external finance by states and corporations alike have led to the booming of stock-markets, the increased financial interdependence between nations, and profound changes within each national economic system. The latter has been the object of a vast academic and non-academic literature, which mainly revolved around two sets of issues.

A first theme has been the impact of such changes on national policy-making; this paper will not address it. Rather, it will concentrate on the second bone of contention: the meaning, or *direction* of such changes. This theme is obviously related to the first one, since it has profound policy implications; policy-makers have indeed to rightly interpret changes at play, and to anticipate their dynamics, in order to be able to formulate adequate policies either to hinder or support those changes.

When I undertook this research three years ago I originally wanted to extend those discussions to two countries that made scholars uneasy about where they fitted in their model: France and Italy. Were these two countries converging on each other? Were they converging towards a third model? First pieces of evidence, however, displayed contradictory signs of simultaneous convergence and divergence across and within the two countries. This became the research puzzle tackled by this paper: how can we understand changes *within* the French and Italian banking systems? In particular, what can those changes tell us about the coherence of national economic systems?

These two questions have obvious implications for policy-making (how can policy-makers respond to both divergence and convergence?) and for the literature (can we still speak of varieties of capitalism in front of internal heterogeneity?), which will be addressed in the fifth and last part. The first part reviews the existing literature on varieties of capitalism and set the paper's conceptual framework. The second part describes the methodology and data used in the paper. Parts three and four present the research findings in the two fields of investigation:

corporate restructuring in the banking sector and banks' business strategies. In part five, I discuss those findings with respect to the issues highlighted in part one. Conclusions highlight implications for future research.

## **1. Comparing national economic systems: Varieties of Capitalism and its limits**

The impact of international economic integration on national economies and politics has been widely discussed during the 1990s. Broadly speaking, two schools of thought have opposed each other around that issue.

### *The convergence argument*

A first group of observers saw in the trends evoked before the sign of an irresistible convergence between industrial economies, both in terms of performance and structure.

National financial systems have represented attractive field of inquiry, since they are seen as the segment of the economy most exposed to globalization, and, therefore, to convergence (see Cerny, 1989, Loriaux, 1991, Story and Walter, 1996). Vitols (1997), for instance, argues that the differences between the three ideal-types of financial systems identified by Zysman (1983) - securities markets-based systems, such as in Great-Britain and the United States; bank-based systems, such as in Germany; and state-based, administered credit systems, such as in France, appear to be fading away: the latter are unraveling everywhere, while market and bank-based systems seem to be taking on similar features. In Germany, for instance, the close relationships between companies and their banks have been weakened by the increased ability and willingness of large corporations to avail themselves of the services of competing banks, especially in foreign markets, or to resort to market finance (Lutz, 1998). In addition, moving beyond the boundaries of finance and banking, dominant economic and sociological theories of organization assert that globalization is leading to a convergence towards a single model of the firm<sup>1</sup>.

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<sup>1</sup> See Fligstein, 1996, for a critical account of this literature.

Story and Walter's book on European financial systems also cites evidence showing that the construction of an integrated financial market in Europe (a development that accompanies and reinforces the "globalization process" itself) reveals a strong converging trend to similar financial *regimes*, despite a "battle of *systems*"<sup>2</sup> (Ingo and Walter). Others, such as Forsyth and Notermans, point towards broader convergence at the level of macro-economic regimes (Forsyth and Notermans, ). Such convergence is attributed to a variety of reasons: the pressure of international trade and finance; the obsolescence of Keynesian economics; the unraveling of those coalitions (or policy communities) who had supported the previous regulatory arrangements (see Moran, 1984; Coleman ).

### *The divergence argument*

A second group of scholars has been telling a different story. Most of these authors (who otherwise form a very heterogeneous crowd) share two basic assumptions: (i) there is a variety of capitalist systems around the world; and (ii) these various economic systems resist convergence pressures.

That literature started being widely publicized with a best-seller written by a French former civil servant, Michel Albert (Albert, 1990), who erected the 'Rhenish' and 'Nippon' systems as counter-models to the 'anglo-saxon' one. Early 'varieties of capitalism' (VOC<sup>3</sup>) work, drawing inspiration from Albert and from Arthur Shonfield's seminal work (Shonfield, 1965), was primarily aimed at debugging the claims of 'hard-line' convergence theorists who argued that all industrial economies would soon converge on the American economic model. Indeed, the remarkable catch-up of the Japanese economy in the 1970s and 1980s, as well as Germany's remarkable post-war economic performance, together with the increased competition faced by

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<sup>2</sup> Here is the difference between financial system and regimes, according to Story and Walter: the financial system is the ensemble of relationships between financial institutions, whereas a financial regime is the ensemble of rules that enable these relationships to take place. "In equilibrium, the process of financial intermediation evolves within a financial system that is regulated according to a hierarchy of norms, effectively implemented" (Story & Walter, 1997, p.106). This is a tricky distinction, since even the authors show some confusion in their analysis of the European situation. Subtitled "A battle of systems", their book is indeed much more focused on financial regimes... We will see later on how that confusion might have important consequences at a theoretical level.

<sup>3</sup> I use that term as a generic one, not to be confused with the homonymous book by Hall and Soskice (Hall and Soskice, 2001).

American firms in the 1980s increased scholars and non-scholars' interest in alternative models of organization. One early concern of the VOC literature was therefore to identify, along with different degrees of macroeconomic performance, the key mechanisms or logic behind such 'national capitalist systems' – i.e. national systems of production, competition and consumption. In fact, the surge of VOC works came simultaneously with a renewal of interest, from the part of economists, in institutions (North, 1990) and, perhaps more importantly, in the various forms of business organization (Lazonick, 1990).

With the new growth cycle of the American economy, which started in the early 1990s, the beginnings of stagnation in Japan and the slump in Germany, VOC scholars shifted their focus from comparing *performance* to comparing the *structures* of national capitalisms (Berger and Dore, 1996). In particular, this 'second generation' of VOC works emphasized the role states play in the working and organization of economic systems (Boyer and Drache, 1996), and how national economic systems are embedded in particular social-political configurations (Boyer and Hollingsworth, 1997).

In addition, most of these scholars have argued that national capitalisms resist uniformization and are not converging towards a single, market-based, model (Berger and Dore, 1996, Boyer and Hollingsworth, 1997, Whitley, 2003). Furthermore, and perhaps more importantly, major efforts have been dedicated to 'mapping diversity' (Crouch and Streeck, 1997) and conceptualizing patterns of organization (beyond the 'models' put forward by Albert in Albert, 1990), echoing similar attempts in the field of welfare and social policy (Esping-Andersen, 1990). Most recent VOC works build on the two ideal-types at the core of Hall and Soskice's investigation - coordinated market economies vs. liberal market economies (Hall and Soskice, 2001), and try to understand their evolution in time and across regions.

Recent case studies on European finance (Deeg, 1999, Vitols, 1999, Lutz, 1997, Perez, 1997) show that banking systems resist rather well to convergence pressures. Deeg and Vitols present evidence supporting the persistence of non-market forms of financial intermediation and of a sizeable banking sector in bank-based systems (Deeg, 1992 and 1999 and Vitols, 1999). Others, such as Labye and Renversez, do acknowledge that "market intermediation" increases in

Germany or in France, but emphasize that this form of intermediation “cohabits” with more traditional, credit-based intermediation (Labye and Renversez, 2000). Here we can observe a slight difference from the interpretation evoked before: instead of divergence, Labye and Renversez speak of “limited convergence”, or convergence towards... distinctiveness vis-à-vis stock market based economies. Similarly, Soskice opposes “bifurcated convergence” to “uniform convergence” (Soskice, 1999).

*Theoretical underpinnings of the varieties of capitalism literature: institutional complementarities and path dependence theory*

One major weakness of such works is their quasi-exclusively descriptive nature. The most conclusive effort to understand *why* convergence has not been taking place (so far...) was made by Hall and Soskice in their already mentioned seminal book. These two authors argue that behind national economic systems lie specific institutional configurations. In fact, the two authors say, national capitalisms remain distinct for two reasons: on the one hand, modern economies are based on *institutional complementarities* that produce specific sets of constraints and incentives for economic actors. As Soskice puts it, “Each element of the institutional framework thus reinforces the other” (Soskice, 1999, p.110); and each element calls for the other, or makes it necessary. For instance, vocational training (the skills production sub-system) requires long term finance (the corporate finance subsystem), which itself depends on specific corporate ownership and control mechanisms (the corporate governance subsystem).

The second key mechanism behind national capitalism resilience is *path dependence*. Along time, early institutional arrangements generate increased returns (through, for instance, sunk costs or vested interests) that make it more costly to get off the path. Further explorations in the use of path dependence theory to explain the various trajectories of national financial systems have been accomplished by Deeg, who builds on Pierson’s conceptual and theoretical works in the subject while trying to go beyond its weaknesses (Deeg, 2001, 2002).

*Theoretical flaws and empirical weaknesses*

This literature, both in its empirics and theory, raise several important issues. The first one has to do with the conceptualization of the firm and the models of behavior developed in particular by Hall and Soskice (in which firms are just actors reacting to institutional constraints and incentives)<sup>4</sup>. This paper will not address that point. It will, rather, concentrate on the two other fundamental issues raised by the VOC literature in general (and by Hall and Soskice work in particular): the issue of system congruence and the issue of time consistency.

Most VOC works build on the assumption that national capitalism exist as *systems* and follow an overall *logic* – hence the heavy reliance on ideal-types to predict national capitalisms’ trajectories. For instance, the German capitalist system, at least until the 1990s, could be described as coordinated market economy, that is a system that works mainly through coordination rather than competition. This assumption, which I call here ‘systemic congruence’, is reinforced by the institutional complementarities hypothesis exposed above. It is a problematic assumption. If economic actors respond to similar (and complementary) sets of institutional incentives and constraints, how to understand variety within national capitalisms? Can’t we imagine different logics at play within national economies, and contradictory, rather than complementary, institutional arrangements?

Some empirically-minded scholars have already started addressing that issue. Deeg, for instance, shows the contradictory forces at play within the German financial system: on the one hand, large commercial banks have transformed their ways of doing business very much in line with the standards of the Anglo-saxon model; on the other hand, meanwhile, a large chunk of the financial system (mainly small local banks) remains in place and continues to exhibit strong performance in some key areas of banking (such as retail) (Deeg, 2001).

However, the explanations given for such diversity are not satisfactory. First, they tend to reduce diversity to dualism, as if there were two models pitted against each other. Secondly, this

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<sup>4</sup> Hall and Soskice see the firm as a « relational firm », building therefore on transaction costs theory and new institutional economics. While this useful device might ‘legitimate’ their emphasis on institutional complementarities (the firm being relational, it will only reflect the exogeneous forces shaping relations, that is, corporate governance mechanisms, skill and training institutions, etc.), it is very much a questionable one, especially in the light of the vast literature on firms as business organization (see Lazonick, 1991).

dualism seems to be a temporary condition, doomed to disappear once the ‘new path’ is definitely established. Implicitly, it seems that in the long run, the resilience of different forms of business behavior and strategies only rises out of the survival of institutional arrangements guaranteed by policy-makers. This argument mirrors the protected versus exposed sector dichotomy used in trade theory (see also Verdier, 1997).

The second issue addressed by this paper is the issue of time consistency. As I mentioned earlier, the early objective of the VOC literature was to confront the convergence thesis. VOC scholars showed the opposite was true: capitalisms persist in their variety. This early concern, however well-founded, built into a flawed binary vision of change in modern economies: a system either converges or diverges (or remains the same). Path dependence theory helped buffer the divergence thesis. In a sense, VOC literature developed the assumption that national economic systems are homogeneous and consistent over time, i.e. they present similar static characteristics that evolve in the same direction.

Again, this raises a double issue: at the empirical level, such theory does not account for contradictory evidence (simultaneous change and non-change). Taking, again, the German example, one quickly notices that not only is the financial system dual; its various sub-systems are moving in different directions: large banks are converging on an international model, while small public banks follow the same old path. There is, therefore, convergence and divergence at the same time (Deeg, 2002). At the theoretical level, moreover, the path-dependence theory used in the VOC literature seems insufficient to explain change. Indeed, change does not have to be necessarily associated with convergence, that is, with a process of adjustment towards a single efficient outcome. There are other *types of change* than changing paths: there is change within the path, there are changes off the path... The trouble with path dependency is that one can always conceptualize a broader “path” that would contain any observed change.

### *My hypotheses*

By contrast with the existing literature synthesized above, I argue that ‘national systems’ are characterized by contradictions and ‘continuous disequilibria’ – reflecting the simultaneous and

conflictual working of various economic logics translated into various organizations. As Whitley puts it, “There are a number of different ways of organizing economic activities successfully in a market economy, and no single pattern is clearly superior to all the others” (Whitley, 1992a, p.5). One also recalls Polanyi’s emphasis on reciprocity, redistribution and house-holding, and his criticism against the claim of free-marketers to make free-market exchange the dominant organizing mechanism of the economy.

The second hypothesis examined here is that change is much more variegated than often understood in the VOC literature: not only do we need to go beyond the dichotomy change of path vs. path dependence for national economic systems, we also need to go beyond it within those systems. My hypothesis is that convergence and divergence are only a part of the changes at play in national economic systems. Instead of using path dependence theory, I rely on the concept of ‘evolutionary configurations’ to capture the variegated and non-teleological features of economic change.

## **2. Methodology and data**

### *The research design*

This research focuses on the homogeneity of national banking systems and evolution of those systems over time. National banking systems are here considered as a proxy for national capitalisms, for their centrality within the latter (and, therefore, changes affecting banking may be seen as changes affecting the economy as a whole). The research is, moreover, comparative: the two cases compared are France and Italy. I chose these two cases because they do not fit neatly within the liberal vs. coordinated market economies classification – and it seemed interesting to understand how ‘different’ systems would evolve, in convergence/divergence terms. In addition, one of my assumptions is that *within-country differentiation* is a critical mechanism behind *cross-country divergence*. I will discuss that assumption in the third part.

Furthermore, the research centers on one specific group within each banking system: savings banks. This choice responds to the research concerns with systemic congruence and time

consistency. Since savings banks, at the outset of the 1980s, represented a peculiar form of banking, distinct from commercial or cooperative banks, following their evolution in the next two decades will tell us something about (i) the degree of systemic homogeneity; and (ii) the extent to which specificities remain or disappear.

During data collection, the same questions asked about the banking sector surged about the savings banks sub-sector itself. Therefore savings banks will be treated both (although not simultaneously!) in relation with other parts of the banking sector and as a proxy of the banking sector as a whole.

It should be clear here that the research adopts a different angle than the one traditionally used in VOC literature. Indeed the research does not look at institutions structuring the banking sector (such as corporate governance rules, corporate finance patterns), but looks at banks themselves. Therefore the scope of such paper is not to understand ‘institutional change’ broadly defined; rather, it is to understand the transformations that have occurred within the banking industry. This choice builds on the assumption that the ‘congruence’ hypothesis this paper aims to question arises precisely, in part, out of the broad institutional focus adopted by most works in the VOC literature. I will elaborate further on this assumption in part five.

I am looking at two important aspects of banking: corporate restructuring and strategy. By corporate restructuring I mean all aspects pertaining to changes in the corporate boundaries of savings banks (numbers, mergers and acquisition, belonging to a group). By strategy I mean changes related to savings (and commercial) banks’ business activities: lending (how much, to whom), deposits (how much, from whom), and services.

### *Data and data analysis*

In both cases, I am relying on both quantitative and qualitative data. Quantitative data come from various sources: for banks numbers and numbers of mergers and acquisitions, I rely on central bank data published in the annual report; for banks’ balance sheet data, I rely on the database ‘Bilbank’ managed by the Italian banking association (for Italy), on official publications (France)

and supplement those data with calculations based on various authors' findings (France and Italy). As for qualitative data, I rely on various documents (such as savings banks' annual reports), newspaper articles and 32 semi-structured interviews with bank staff and policy-makers in both countries.

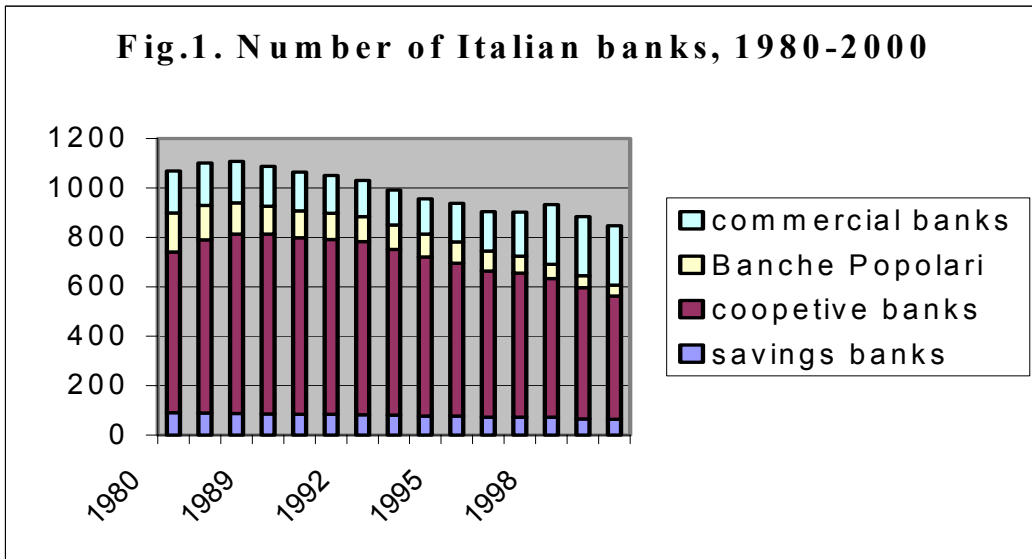
### **3. The various aggregation patterns within the French and Italian banking sectors**

#### *3.1. Mergers and acquisitions in the banking sector*

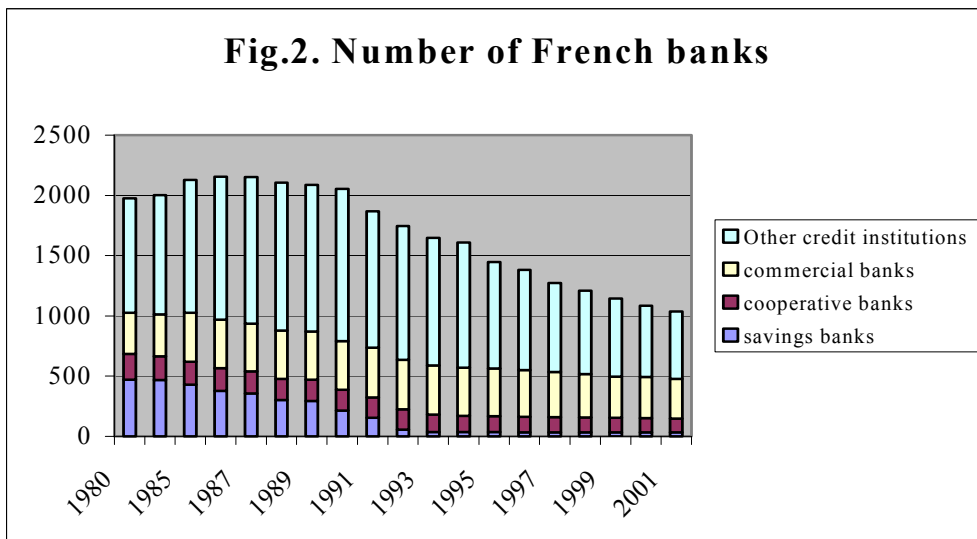
Both French and Italian savings banks have seen their numbers drop in the eighties and nineties. Figures 1 and 2 illustrate this trend in the two countries. There were 451 *Caisses d'épargne* in France in 1980, a number down to 33 as of June 2003. In Italy, a same trend towards a drop in numbers can be observed, albeit considerably less pronounced: there were 90 *Casse di risparmio* in 1980, 65 in 2002<sup>5</sup>. Beyond the different scale of changes, which we will analyze later on, one can therefore a similar trend in both countries. This trend, moreover, and perhaps more importantly, concerns all categories of banks. From figure 2, we can see that the total number of French banks fell from 2000 in 1980 to 879 in 2003; in Italy, from 2000 to 900 during the same period (figure 1). All categories of banks were affected: commercial banks, cooperatives and savings banks. This is a strong indication that same dynamics were at play in all segments of the banking sector.

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<sup>5</sup> Those are the numbers of *legal* entities, and do not reflect the fact that a) several Italian savings banks (the biggest ones) belong to a few banking groups and b) all French savings banks are parts of a single group. Those aspects will be addressed later on.



Source: Banca d'Italia, Annual report, various years.



Source: Banque de France and Commission Bancaire, Annual reports, various years.

This drop in numbers does not reflect an elevated rate of bankruptcies or bank closures. Those remained a rare event in the period under study. Rather, an intense process of change in ‘corporate boundaries’ through mergers and acquisitions (M&As) has been at work in the two countries’ banking sector. And this is, again, true for all types of banks. Table 1 reports data on M&As in the Italian banking sector from 1989 to 2000 (the period most fertile in mergers and acquisitions). The evolution mirrors that of Figure 1. In twelve years, there were 356 M&As among Italian banks, 219 of which took place in the cooperative sector. Interestingly, however, such radical shifts in corporate boundaries were less important (in terms of the amounts of intermediated funds represented by the operations) than the acquisition of majority stakes, which represented a third of total intermediated funds.

Table 1. Mergers, acquisitions and takeovers in Italian banking, 1989-2000

Year	N. of M&As	(of which: BCC)	Intermediated funds (% of total)	(of which BCC)	N. of controlling stakes	Intermediated funds (% of total)
1989	21				6	
1990	18	9	1.06	0.02	4	0.37
1991	30	19	0.45	0.03	5	0.37
1992	24	9	3.04	0.01	0	0.00
1993	37	25	0.63	0.05	7	1.50
1994	41	24	1.59	0.05	11	1.90
1995	48	28	1.57	0.10	20	4.57
1996	36	24	0.47	0.05	19	1.08
1997	24	11	0.80	0.05	19	3.42
1998	30	20	2.65	0.08	24	9.54
1999	36	23	0.39	0.06	18	14.35
2000	33	22	1.50	0.09	25	4.94
<b>Total</b>	<b>356</b>	<b>219</b>	<b>13.65</b>	<b>0.46</b>	<b>158</b>	<b>32.63</b>

Source: Banca d'Italia, Annual report, various years.

The same trend can be observed in France, where M&As that took place between 1985 and 2001 concerned more than 55% of funds intermediated by the banking sector. And it is not over: witness the recent announcement by the *Banques populaires* group of further mergers among its member banks in Alsace, thus bringing the number of *Banques populaires* to 20 by the end of 2003 (down from 42 in 1970)<sup>6</sup>.

Mergers can fulfill a variety of objectives. One can cite three main motives: (i) the desire to increase their market power (this is generally the case for small local banks, especially in contexts of hardening competition); (ii) the quest for economies of scale – which can lead to cost reductions and, therefore, to creating value as well; and (iii) the search for economies of scope (in this case, the merging partners must be complementary, so as to expand the scope of the products and services offered).

The increasing rate of mergers and acquisitions in the banking sector as a whole does reveal a common reaction to the same challenge: privatization of public banks, the de-segmentation of banking markets and other regulatory reforms passed in the 1980s and 1990s. In fact, all interviewees having played a direct role in that M&A wave of the 1980s – 1990s emphasized the “irresistible” character of such moves. As one of them said, “Zero dimension was clearly not possible any more”<sup>7</sup>. And the recent mergers announced by Banques Populaires were officially motivated by the “need to get out of isolation”<sup>8</sup>.

However, that common trend hides profound differences as well, in terms both of the objectives pursued and the patterns followed by the mergers.

### *3.2. Various aggregation patterns*

#### The sector characteristic of mergers and acquisitions

A first characteristic of banking M&As in Europe (but especially in France and Italy, besides Germany) is that they have been primarily intra-sectoral – mergers between and among savings banks, cooperative banks, commercial banks. Those mergers represented from 1990 to 1999 63% of total banking mergers in Europe<sup>9</sup>. This is especially true for cooperative banks, whose mergers represented almost two thirds of mergers in Italy during the 1990s: all of them took place *within*

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<sup>6</sup> See “Banques Populaires : le Haut-Rhin va fusionner avec Strasbourg”, in *Les Échos*, February 2003.

<sup>7</sup> Interview, December 2001.

<sup>8</sup> Ibid.

<sup>9</sup> Commission Bancaire, Rapport annuel pour l’année 1999.

the sector. But it is also true, to some respect, for savings banks, although the picture is more complex and varies across countries.

In France, all savings banks merged with other savings banks – but this exclusive intra-sectoral restructuring occurred simultaneously with the growing integration of all local and regional savings banks into a single banking group. As a matter of fact, most mergers, especially in 1985-86 and 1991-92, responded to an explicit integration strategy pursued by the central organ of the savings banks network, the CENCEP (*Centre National des Caisses d'Épargne et de Prévoyance*, which later became the *Caisse Nationale des Caisses d'Épargne*, or CNCE). At the CENCEP General Assembly in June 1990, the director of the *Caisse des Dépôts et Consignations*<sup>10</sup>, Robert Lion, announced, in agreement with the CENCEP, a plan to re-group the 187 existing savings banks into 50 units that should be “strong, autonomous and accountable”<sup>11</sup>. That decision has been long expected at the CENCEP, but any idea of further re-organizing the sector had previously met with strong reluctance from the unions, and was a bone of contention between the Caisse des dépôts and the CENCEP.

The sectoral dynamic is crucial to understand the aggregation pattern followed by French savings banks. It is important to note that savings banks' restructuring came with a reinforcement of central organs and the increased powers of the CNCE<sup>12</sup>, which ended up constituting a strong banking network. As one of the French interviewees said, «we could maintain the group's cohesion (by contrast with what happened in Italy), with one single group, and one single bank operating on a single territory»<sup>13</sup>.

The case of Italy is more complex, since the ‘sector’ ceased to exist formally in the 1990s, with the diverging paths taken by savings banks in their restructuring process. The sectoral

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<sup>10</sup> There is no space here to expand on the peculiar role and location of CDC within the French financial system. Suffice here to say that it is a public institution historically in charge of directing public credit to sectors in need. The CDC has been for long the real “network head” for French savings banks, since it administers the funds perceived through administered savings accounts offered by the *Caisses d'épargne* (especially the famous *Livret A*).

<sup>11</sup> On that crucial date for the future organization of the sector, see *Le Monde*, June 30, 1990 (“Les caisses d'épargne accélèrent leur restructuration”); and Moster (2000), p.52.

<sup>12</sup> The CNCE was created by a 1999 law, but it inherited the missions previously exerted (in a looser way) by the CENCEP.

<sup>13</sup> Interview, 24/04/02

association, ACRI (*Associazione fra le Casse di Risparmio Italiane*), while still in existence, has lost some of its attributions (such as the responsibility of negotiating with unions for sector-wide labor contracts and social regulations) to the main banks' association, ABI (*Associazione Bancaria Italiana*); and it only represents the 'new ex owners' of savings banks, the *Fondazioni*<sup>14</sup>. And the sectoral bank, ICCRI, ceased to exist in 1991.

For cooperative banks, however, mergers and acquisitions took a clearer sectoral turn. Thus, overall, both France and Italy remain characterized by 'segmented' mergers and acquisitions processes. In addition, and perhaps more importantly, those mergers and acquisitions have followed very distinct patterns.

#### Distinct aggregation patterns: Italy...

In Italy, two main aggregation patterns can be modelled out of the M&As that took place during the 1990s. A first pattern corresponds to the process leading to the formation of a large, vertically integrated, universal banking group. In this process the three strategic objectives evoked earlier (market power, economies of scale and scope) are equally present. This pattern characterizes the emergence of Italy's first four banking groups (in terms of assets): IntesaBCI, San Paolo IMI, Unicredito, Capitalia. In all four cases, aggregation proceeded around a core formed by a large savings bank (respectively, the *Cassa di Risparmio delle Provincie Lombarde* – or CARIPLO; *Cassa di Risparmio di Torino*; *Cassa di Risparmio di Venezia*; *Cassa di Risparmio di Roma*) and one of the large former public banks (respectively, Comit; Istituto San Paolo; Credit; and Capitalia). In the last case, for instance, *Cassa di Risparmio di Roma* first absorbed the Monte di Pietà di Roma in 1985, then the Banco di Santo Spirito (a commercial bank) in 1989-91, before merging with the Banco di Roma in 1991 to form the Banca di Roma group. It joined, later on (in 1998), the Capitalia Group, headed by Capitalia Spa. A fifth vertically integrated group could

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<sup>14</sup> To synthesize a complex story, after a 1990 law all the *Casse di risparmio* were separated into two distinct legal entities: the bank itself, who acquired a joint-stock company status; and the bank's owner, the *Fondazioni*, which received 100% of the banks' equity. The *Fondazioni*, which had a (contested) public status, were created to clearly distinguish ownership from management, as a first step towards the 'privatization' of the savings banks. Indeed, the 1990s saw the *Fondazioni* sell most of their shares to the public or to other institutional investors. That process, however, went into several hurdles; and the legislator had to intervene repeatedly to force share dismissals from the *Fondazioni*.

be formed by the expected alliance between *Monte Paschi di Siena*, a bank that belonged to the savings banks category, and the *Banca Nazionale del Lavoro*, a former public bank as well.

A second pattern of aggregation regards strictly regional or inter-regional mergers between banks belonging often to the same category: savings banks, *banche popolari*, cooperative banks. This type of mergers differs from the previous one in two key aspects: rather than aiming to constitute universal banking groups, these mergers were aimed at creating strong retail banking groups (sometimes with the addition of specific activities brought through further alliances with specialized credit facilities); moreover, the aggregation took place on a territorial basis (neighbouring regions or provinces). For instance, the *Cassa di Risparmio di Salerno*, a savings bank from the southern Campania region, first allied with *Cassa di Risparmio di Calabria*, a savings bank from a neighboring region, Calabria.

This latter aspect is crucial: several studies have shown the specific pattern of aggregation followed by most small and medium-sized Italian savings banks, which reveals, according to some authors, a strong ‘sectoral character’ (Locatelli, 1998) consisting in a deep rooting (and continued investment into) territories of origin<sup>15</sup>.

Besides these two aggregation patterns, it is important to emphasize the parallel existence of numerous banks that do not belong to groups. Those are of two types: specialized credit institutions on the one hand (asset management, mortgages); and small local banks on the other hand (such as cooperatives with one bank window).

### ...and France

In France, one can distinguish two aggregation patterns as well. The first one emerges out of the external growth strategies pursued by large privatized banks: BNP Paribas, Société Générale and the Crédit Lyonnais. Those banks have soon after their privatization pursued an aggressive

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<sup>15</sup> Italian savings banks have historically been regionally or locally rooted.

strategy of mergers and acquisitions, perhaps epitomized by the quasi-bankruptcy reached by the Crédit Lyonnais in 1994-95.

The second pattern corresponds to mergers between regional and local banks that are members of a cooperative network – such as the Crédit Agricole, Crédit Mutuel, Crédit Coopératif and Banques Populaires networks. In that case, M&As occur strictly within the category. They proceed, furthermore, along a territorial logic: at the departmental and then regional level, suggesting again a very ordered re-structuring process (no cross-regional or cross-sectoral merger). In fact, sectoral institutions played a key role in encouraging mergers and shaping the emergence of integrated regional banks. This is clearly the case for the French savings banks, as said above.

Besides these two aggregation patterns, the recent merger between Crédit Lyonnais and the Crédit Agricole stands on its own. Even though cooperative banks have, in the past, bought commercial banks, those acquisitions always targeted specialized banking (or insurance) firms with a quasi-exclusive focus on economies of scope. The Crédit Agricole – Crédit Lyonnais merger is the first instance of a cross-sectoral merger for economies of scale purposes, since it brings together two retail banks with an extensive branch network, very often operating in the same geographical areas.

Finally, unlike Italy, the French banking sector does not include a vast number of small and local actors, beyond the cooperative federations evoked above.

### *3.3. The limited impact of regulatory regimes on systemic diversity*

As said in the first part, an implicit assumption made by those VOC scholars who do recognize the existence of divergences within countries is that such divergences could not exist without external (institutional) intervention. In other words, differentiation arises out of policy distortions and regulatory rents. This argument is not far from protected versus exposed sectors in international political economy studies of trade. If true, this hypothesis would ‘rescue’ the ‘systemic congruence’ discussed in the first part. Indeed, one could argue that in the absence of

‘protective regulations’, only one logic would prevail. It is therefore necessary to explore, albeit synthetically, regulatory interventions with regard to the aggregation patterns described in the previous paragraphs.

## France

Despite claims to the contrary, there has never been a complete de-regulation of the banking sector in France and Italy: de-segmentation came with renewed attention paid by regulatory authorities to the concrete workings of the restructuring process. In fact, banking mergers were subjected by the legislator to a tight control by regulatory authorities. In France, a 1996 decision of the Banking and Financial Regulation Committee (*Comité de la Réglementation Bancaire et Financière*, or CRBF) submits any takeover or increase/decrease in a bank’s ownership to the agreement of the Credit Institutions and Investment Firms Committee (*Comité des Etablissements de Crédit et des Entreprises d’Investissement*, or CECEI) whenever that operation ends up “allowing that person [the buyer/seller] (i) to acquire or lose effective power in the firm’s management or (ii) acquire or lose the third, the fifth or the tenth of voting rights.”<sup>16</sup>

The margin for appreciation left to CECEI in those cases is wide, and it mirrors the criteria applied to authorizations delivered to newly created banks. According to a 1984 law, the CECEI must “take into account the firm’s business plan, technical and financial resources to be used, and the quality of capital owners and, if needed, of their warrants.”<sup>17</sup> In practice, CECEI monitoring of banks mergers has focused on three criteria: (i) the financial ‘depth’ of the acquirers (i.e. their capacity to bring fresh capital to the acquired bank in case of problem<sup>18</sup>) and their experience of banking; (ii) ownership must be stable (i.e. there must be a stable shareholding coalition to run the firm); (iii) controlling owners must have direct shares into the firm (so has to avoid pyramidal ownership structures).

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<sup>16</sup> Article 2 of CRBF regulation n.96-16 of December 20, 1996.

<sup>17</sup> Article L.511-10 of the *Code Monétaire et Financier* (Monetary and financial code), formerly article 15 of the law n.84-46 of January 24, 1984.

<sup>18</sup> Which can take the concrete form of the request, by the CECEI, of a letter of intent from buyers: see CECEI, Rapport annuel, 1999.

In addition to these criteria, CECEI is also entrusted with the authority to monitor bank mergers with regard to competition law. In truth, this is a shared power with another regulatory agency (and there is uncertainty as to who should have the final say).

What matters here is whether this power is effectively exercised. The most recent and publicized example of CECEI intervention has been the Crédit Lyonnais – Crédit Agricole merger, finally agreed by the CECEI this Spring. This high profile case succeeds to the controversial decisions to go along with the BNP/Paribas merger in 1999. Both operations epitomize for many observers the power regulatory authorities exert on aggregation patterns within (and beyond) the banking sector.

However, those interventions represent only a tiny part of all mergers and acquisitions that took place in the banking sector over the period under study. None of the mergers within the savings banks group, or within other cooperative networks, was ever censored by the CECEI. More importantly, there exists no regulatory provision for intra-sectoral or intra-group mergers. In other words, theoretically a regional bank of the Crédit Mutuel could perfectly secede from the group and merge with a Crédit Agricole regional bank. If the two banks do not cumulate market shares that would distort competition in the regions concerned, there would be no legal or regulatory basis for CECEI to prevent it.

### Italy

In Italy, regulatory authorities have also been entrusted with considerable powers over bank mergers. Banks' main regulatory agency, the central bank's control department (*Dipartimento di vigilanza*) can also prevent any bank merger if certain conditions are not satisfied: i.e. in the absence of a business plan, or when banks' acquirers do not satisfy honorability requirements. Italy's Central Bank, *banca d'Italia*, is very keen on exercising this control so as to guarantee stability in the banking sector. The central bank governor declared in February 2001 that he

would prevent “any acquisition that would endanger the bank’s stability”<sup>19</sup>. Very much as in France the Banca d’Italia has often been considered to act as the ‘architect’ of banking mergers.

The reality, however, is slightly different. True, *Bankitalia* has certainly played a key role (along with various Treasury ministries) in the emergence of the four large banking groups identified before. But as in the French case, the concrete cases of hands-on monitoring by the Central Bank are rare. In the case of regional mergers between savings banks, there is no evidence of recurrent Central Bank intervention.

As to sectoral mergers, however, the legal regime does matter; and it does seem that the sectoral character of mergers, especially those between cooperative banks, owes largely to specific legal provisions that prevent takeover from joint-stock companies. In fact, Italian Parliament peculiar has recently reviewed the cooperative regime of *Banche Popolari*; and at that occasion several voices have raised to propose the demise of those voting rules that prevent external takeovers<sup>20</sup>. But this does not explain why banks *within* that category have followed different paths.

In sum, what I have argued here is that mergers and acquisitions in France and Italy have followed distinct aggregation patterns; those distinct patterns reflect *permanent* differences in aggregation strategy and objectives; and those patterns form *despite* and beyond regulatory regimes and institutions – even though those still matter. What remains to be seen is whether this ‘systemic incongruence’ also pervades savings banks’ operational strategies. This is next part’s purpose.

#### **4. Operational isomorphism and diversity within the Italian and French banking sector**

##### *4.1. Market de-segmentation and operational isomorphism*

Another much-touted aspect of convergence both within and across the Italian and French banking sectors has been the trend towards operational isomorphism. That is, banks tend more

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<sup>19</sup> *Il Sole 24 ore*, February 4<sup>th</sup>, 2001.

<sup>20</sup> See Franco Locatelli, “Popolari, riforma ma senza scosse”, in *Il Sole 24 ore*, February 19, 2003.

and more to do the same things: offer similar products to similar clients in the same markets, following comparable commercial targets.

Data on the balance sheet structure of banks should help assess that story. Table 2 shows the composition of liabilities in Italian commercial and savings banks from 1985 to 1996.

**Table 2. Composition of liabilities in Italian banks, by type of liability (in percent)**

	1985	1990	1995	1996
<b>Savings banks</b>				
Current account	48.1	46.22	42.26	41.89
Savings accounts	49.8	38.45	11.54	10.66
Deposit certificates	2.1	15.33	24.04	23.41
Bonds	0	0	10.99	14.88
Pronti conto termine	0	0	11.17	9.15
Total	100	100	100	100
<b>Commercial banks</b>				
Current account	42.63	43	36.27	35.87
Savings accounts	34.08	19.60	9	8.15
Deposit certificates	6.76	20.05	25.78	23.91
Bonds	16.53	14.95	16.45	19.77
Pronti conto termine	0	2.4	12.5	12.30
Total	100	100	100	100

Source: Schena (1998)

The message is straightforward: savings and commercial banks' liability composition has clearly converged. The two categories of banks display the same tendencies with respect to the diminished importance of current account deposits, the drop in savings accounts, the boom in deposit certificates, the increased reliance on bonds and "*pronti conto termine*", a remunerated long-term account. The data shows, moreover, that where savings banks were lagging far behind commercial banks (for example in the market for deposit certificates), it has caught up and now displays a very similar balance sheet structure.

In addition to offering similar products, banks are also targeting the same clients and markets. Table 3 shows the composition of Italian savings banks' assets and liabilities, by types of clients. Again, the 'clientele mix' of savings and commercial banks have converged: savings banks have increased their lending to households, which were already sizable in the mid-1980s; commercial

banks, meanwhile, have almost filled the gap. Similarly, both savings and commercial banks have decreased their lending to the government and to private firms.

On the liabilities' side, the evolution is smoother, but still shows similar trends at play for the two categories of banks: a gradual decrease of the reliance on households savings, on government and firms, balanced by an increase in other forms of liabilities (such as stocks and bonds).

**Table 3. Composition of liabilities and assets of Italian banks, by market**

	1980		1986		1995		1996	
	Savings banks	All banks	Savings banks	All banks	Savings banks	All banks	Savings banks	All banks
Lending	100	100	100	100	100	100	100	100
households	17.79	2.78	18.42	3.62	37.67	35.31	38.74	35.96
government	11.56	9.51	6.72	7.99	6.81	5.09	6.64	5.00
Non-financial firms	68.40	85.24	69.63	81.63	46.84	49.69	45.28	48.33
Other	1.49	0.00	1.44	0.00	7.97	9.25	8.37	9.87
Liabilities	100	100	100	100	100	100	100	100
households	72.35	71.62	80.59	75.07	62.59	61.98	63.94	62.54
government	10.34	7.69	4.19	3.83	2.87	2.72	2.96	2.85
Non-financial firms	15.20	19.43	13.73	19.27	7.47	9.45	7.32	9.16
Other	2.11	1.26	1.49	1.83	27.07	25.85	25.78	25.45

*Source: Schena (1998).*

In France, too, one can observe similar convergence tendencies. By contrast with their Italian counterparts, French savings banks have a short experience on the lending market. Starting from zero corporate lending in 1987 (the year savings banks were authorized to lend to firms), that type of asset was however bound to rise. Which it did: it now represents between 11 and 15% of total savings banks lending. French savings banks (especially through the alliance with the CDC, which brought its merchant bank along) have also increased investment services; and, very much alike Italy, the share of administered savings accounts has dropped.

A further look at data on market shares can give us an idea on the increased competition between all banks. Table 4 shows such evolution, in terms of total lending and total deposits.

Interestingly, the data show the erosion of commercial banks' market shares to the profit of cooperative banks groups, savings banks included. This erosion partly reflect the decisive entry of savings banks into new markets. This bold move is self-conscious and constitutes a pillar of savings banks' actual market strategy.

**Table 4. Market shares in France**

	Deposits			Lending		
	1986	1993	1999	1986	1993	1999
Commercial banks	49.9	46.6	38.9	50.7	50.3	44.3
Cooperative banks	45.3	52.3	59.6	24.7	27.2	37.1
Of which: savings banks	17.4	18.7	19.8	3.9	4.8	7.6
Others	4.8	1.1	1.5	24.6	22.5	18.6

Sources: *Commission bancaire (2000), Lacoue-labarthe (2001)*

The evidence displayed above provides strong evidence both to convergence theories and to the 'systemic congruence' view also adopted by VOC scholars. However, this is not the end of the story. A more careful look at the data shows that strong divergences are at play beneath this apparent converging trend.

#### *4.2. Market niches and divergent banking strategies*

There are three main limits to the convergence unveiled above.

First, if *trends* are the same, *hierarchies* between banks has remained. In other words, savings banks in both countries are still less prone to resort to off-balance-sheet activities than commercial banks; they are still dominating commercial banks in retail markets (very much as what has happened in Germany; see Deeg, 1999 and 2001). In a sense, even though banks follow the same business cycle; are exposed to similar moves in demand; and respond to similar incentives, the 'distance' between them persists over time.

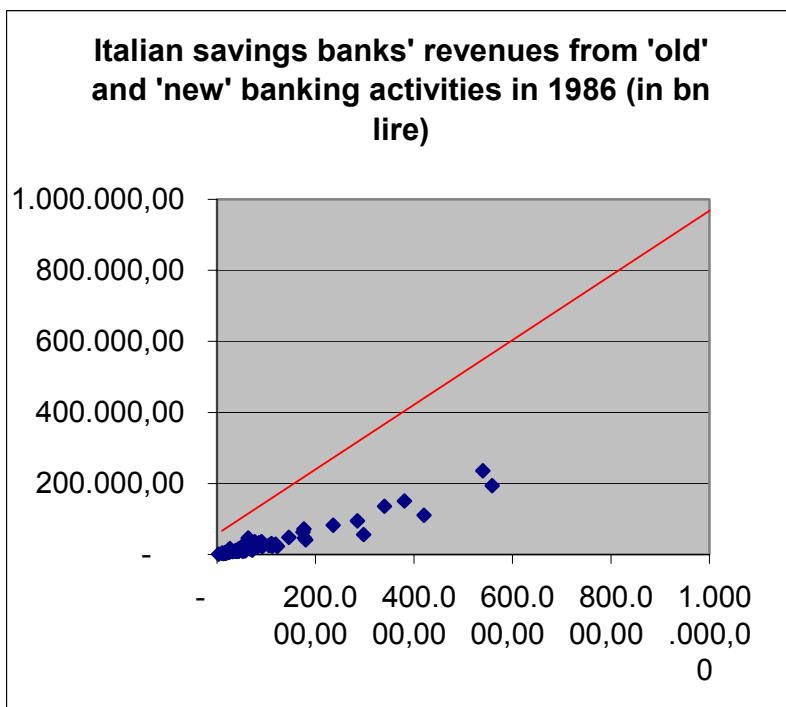
Secondly, the convergence story omits the persistence of market *niches*, which lead to divergent business strategies. French savings banks, for instance, are aggressively moving to the corporate lending market, but they still are a small player in that market – and they know their real strength is household lending. All interviewees in the French savings banks group acknowledge this: “At the end of the day, that’s where our natural market is” said one of them<sup>21</sup>. The savings bank group still is among the main lenders to local governments, and the main providers of credit to public housing programs.

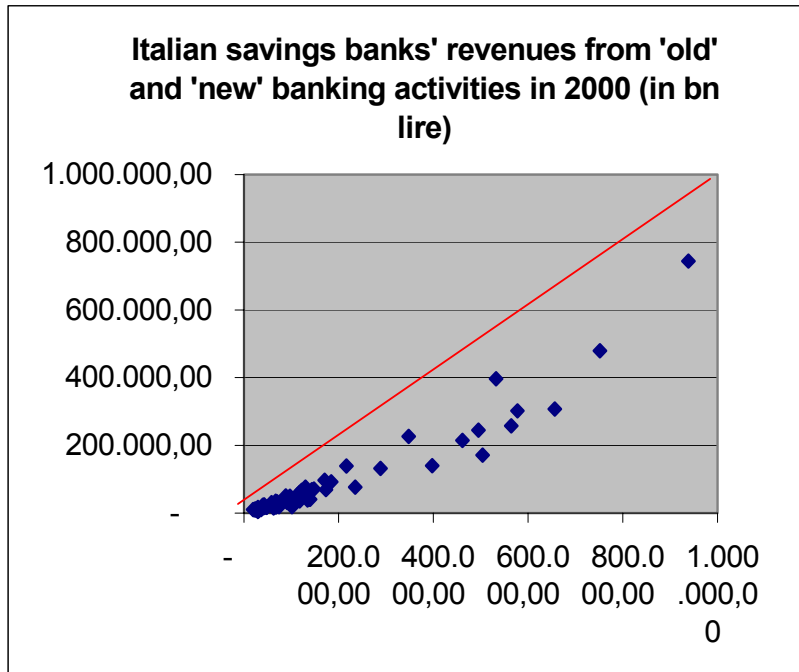
In Italy, savings banks have historically been associated with lending to small and medium businesses. And recent research has shown that they have remained the main lender to industrial districts (Gobbi et al, 2001). Small *Casse di risparmio* are also strongly relying on household lending for resources.

Third, and perhaps more importantly, the convergent trends that can be observed at an aggregate level lose salience when looking at disaggregated data. Figures 3 and 4 show the balance of savings banks revenues between ‘old’ banking activities (the interest margin – right scale) and ‘new’ ones (revenues from services – left scale), in 1986, 1994 and 2000. What emerges from these data is the increased heterogeneity between savings banks over time, which could be explained in the following terms: In the early 1990s, when savings banks were able to merge faster and to expand on new markets, large and some medium-size savings banks succeeded in diversifying their balance sheet structure; decreasing interest rates in the 1990s automatically reduced all savings banks’ interest margin, but those who suffered most were those banks essentially relying on lending to households and small firms. Those banks displayed a limited capacity / willingness to engage on new markets and the divide grew between those banks and the ones that did choose to invest into the development of new skills and services. Whereas, in 1994 for instance, Cariplo was clearly an outlier in terms of its share of revenues generated from services as opposed to gains from traditional banking activities, by 2000 a small group of large savings banks had taken the same path – that trend explains why, *on average*, savings banks’ balance sheet structure seems to have converged on commercial banks’.

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<sup>21</sup> Interview, March 2002.





Divergences within a sector are simpler to deal with (for managers as well as for the analyst) than divergences within a firm. French savings banks actual market position is the complex outcome of contradictory trends within the group: on the one hand, a commercial strategy designed at the 'federal' level and explicitly aimed at competing with other banks on the same markets and types of clientele; on the other hand, the inertia linked to past legacies (in particular the vast clientele still represented by savings books holders) and those savings banks employees and staff intent on keeping the *Caisses* specificities in terms of clientele, type of products and pricing policy. There is no space here to explore more deeply that complex case: suffice to say that contradictory evidence about French savings banks' commercial strategy and balance sheet structure bears testimony not only of varying logics at play within the banking system; but of different logics struggling within a 'firm' itself.

#### *4.3. The role of institutional constraints and incentives*

Such diversity does not seem to be due to the regulatory regime. Regulatory de-segmentation, which started in the 1970s and continued in the 1990s, was clearly aimed at creating a level-playing field within banking and finance and did not create pockets of protection and privilege for non-commercial banks. In France, savings banks' belated access to checking accounts (1978) and corporate lending (1985) coincided with the opening of "administered savings products" to other credit institutions: the *Livret d'Epargne Populaire* (popular savings book, or LEP) and the *Compte d'Epargne Valeurs Industrielles* (or CODEVI) were created in the early 1980s as a means given to commercial banks to tap into administered savings, while differentiating the sources of long-term finance (for housing and industry).

In Italy, no specific limitations have been attached to savings banks' activities. Rather, until the mid-1980s the existing regulatory regime established a strong "firing wall" between short and long-term credit. Savings banks, as most publicly owned and commercial banks, were entitled to provide only short and medium term lending. But the Italian *Casse di risparmio* were on a much more equal footing with their commercial competitors than were their French counterparts. In addition, a 1978 decision by the Credit and Saving Governmental Committee (*Comitato Interministeriale per il Credito e il Risparmio*, o CICR) ended the ban on the creation of new bank branches, which led to a rapid increase of the number of bank windows in Italy. A further 1989 decision by the CICR totally liberalized the ATM opening regime<sup>22</sup>. Finally, a 1993 law, the *Testo unico in materia creditizia*, while incorporating the Second European directive on Credit institutions, drastically reduced the number of legal categories of banks<sup>23</sup>.

In neither country did the new regulatory regime provide for specific protections for any category of banks. In that case, therefore, it is easier to reject any claim that the variety of strategies examined above was induced by specific institutional provisions.

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<sup>22</sup> CICR deliberation of January 20, 1989.

<sup>23</sup> Until the 1993 *Testo unico*, Italy had 10 broadly defined legal categories of banks: *Istituti di credito di diritto pubblico* (they were 6 in 1988) and *Banche di interesse nazionale* (3), which were state-owned (through the public holding IRI), *Banche di credito ordinario* or commercial banks (110), *Banche popolari cooperative* that had a cooperative status (127), *Casse di risparmio* (76), *Monti di credito su pegno 1a categoria* (7) and *Monti di credito su oegno 2a categoria* (2), both categories which were attached to savings banks, *Casse rurali e artigiane* that became the cooperative banks (726), foreign bank subsidiaries (38), and *Istituti di categoria* (5), that is,

## 5. Discussion

### *5.3. The issue of systemic congruence*

The findings presented above bring up four observations. First, the picture that emerges from the analysis is far less homogeneous than typical VOC analyses would assume. Secondly, the differences observed are not simple ‘variation around a theme’, that could be attributed to normal ‘noise’ and banks’ idiosyncratic characteristics: on the contrary, the data shows the existence of quite different patterns, both in the aggregation and commercial strategies of banks. Those patterns follow sector lines, but go beyond them as well. The third observation is that those differences are more than two: in other words, national banking systems are characterized by more than an alternative between two paths. Fourth, the systemic incongruence uncovered above cannot be understood as a functional one – that is, different types of banks do not exist in a coherent pluralism. On the contrary, increased competition and struggles for influence / survival characterize the relationships between the various sub-systems.

These research findings can be clustered with the results of a recent study of 36 computer firms engaged in international operations (Duysters and Hagedoorn, 2001). That study shows that: (i) there are clear ‘traces’ of the regional belonging of firms – in other words, firms such as those, while engaged on a global market, maintain in their strategy and structure the ‘imprint’ of the environment in which they were born; (ii) there are no signs of growing isomorphism over time, quite the contrary.

In particular, the authors say, “the variation in the population at large as well as within the three regions does not suggest a deterministic relationship between environment and the individual organization”. (Duysters and Hagedoorn, 2001, 354) Conversely, there is no straight-forward path-dependence: “the variation in structure and strategy is not fully reflecting the inherited properties because there is some degree of convergence with regard to aspects of technological strategies that are so crucial to the high-tech industry.”

### *5.2. The issue of time consistency: path-dependence versus evolutionary configurations*

But how can we understand the evolution of those differences over time? Is the persistent diversity uncovered above a by-product of lag? Is it doomed to disappear, giving way to full-fledged convergence on a single banking model?

The most diffused explanation for persisting differences across national economic systems is path dependence theory. Although it has not been often used that way, path dependence theory could very well be applied to different trajectories of change within national economic systems. That's what Deeg, for instance, has done, to some extent. Path dependence theory can take several meanings. A broader one refers to the causal relevance of preceding stages in a temporal sequence. A narrower one considers that path-dependence occurs when there are increasing returns (or positive feedback): the costs of switching from one path to another rise with time. That's the definition retained by Paul Pierson in his series of essays on the subject (Pierson, 2000). Pierson identifies several mechanisms leading to increasing returns: large set-up costs, coordination effects, learning effects, adaptive expectations. In subsequent work, Deeg added two other mechanisms: institutional complementarity and power – since, as he rightly points out, actors may resort to political authority to keep a certain path (Deeg, 2001). Some of these mechanisms are clearly at play in the parallel stories of French and Italian savings banks. Cultivating one's market niche is a blatant case of increasing returns, for instance – and we have seen that it is a strong feature of savings banks business strategy. But as showed in previous parts, savings banks have undergone tremendous changes as well. How can path dependence theory help us to understand them?

Path dependence theory is good at explaining sameness – that is, the re-production of institutional arrangements along the same path. In fact, most users, for instance in the VOC literature, focus on explaining persistence rather than change. This is problematic as, in Crouch and Farrell's words, those authors implicitly “emphasize how institutional systems tend to crystallize around coherent logics of ordering” (Crouch and Farrell, 2002)<sup>24</sup>.

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<sup>24</sup> Crouch and Farrell argue that this shortcoming is not due to path dependence theory itself, but to its actual restricted use. Yet Pierson emphasizes that one property of path dependence is inflexibility : “this emerging stability

The first difficulty, of course, lies in the definition of what a path is. How, for instance, to qualify the pattern followed by French savings banks? In the two decades under study, there has clearly been a switch from one path to another: from being essentially public savings institutions, run by local politicians and with no clear line of ownership, savings banks have become quasi-universal retail banks, managed by professional managers, federated within a network, and with a cooperative status and clear ownership lines.

At the same time, however, and it could not be otherwise (since I am not claiming here that a path switch-over necessarily means total break from the past), savings banks have kept long-standing features of what they used to be: they still manage administered savings, which still represent a sizable part of French households assets; they are still rooted in the retail market; they still redistribute part of their earnings to the local economy, under the form of what savings banks themselves call “*missions d'intérêt général*” (general interest missions); and they have a clear no-profit objective... Besides the commercial ones.

This complex picture leads to two interpretations: under the first one, one could analyze French savings banks' current situation as a contested and unstable equilibrium between contradictory forces. To synthesize roughly, these forces could be seen as the ‘old path conservatives’ versus the ‘new path reformists’. In that case, VOC path dependence theory would still hold in that one could see savings banks still standing at the critical juncture, i.e. in a situation where the old path is still there and one has not moved decisively onto the new one.

The second interpretation is more inductive in that it does not pose a priori the new path as being unique. In that view, savings banks' current situation is still considered as a contested and unstable equilibrium. But there are two differences from the previous interpretation: one, we do not consider the forces at work in ‘old path’ versus ‘new path’ terms. To take an example, the change to cooperative status, which would appear to the uninformed observer as a return to the past (and thus a reinforcement of the ‘old path’) did represent a sheer innovation (or ‘path

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represents a critical distinction between increasing return processes and chaotic processes, which may generate no equilibrium” (Pierson, 2000).

change'...), to which, in fact, savings banks have not quite adjusted yet. Second difference: the unstable equilibrium just described constitutes itself a new path, and does not have to be seen as a hesitation between the well-known old and new path. This requires, however, to move beyond the implicit assumptions built-in the actual use of path dependence theory in VOC literature: namely, that agents are confronted with a binary choice: that of change (new path) and resilience (old path).

A second, related shortcoming of path dependence theory when it comes to explain our cases is that it does not account (yet) of the possibility of multiple paths; and of multiple types of change along the path.

The actual use of path dependence theory by scholars working on varieties of capitalism generally discards the possibility that concomittant paths might co-exist over a long period of time<sup>25</sup>. Deeg went beyond that limitation when explaining the dualism of the German financial system (Deeg, 2001). That is, he observed distinct paths within the same system. However, it is not clear as to how permanent Deeg thought this dualism was. In fact, Deeg seemed to indicate that this dual path equilibrium was temporary and doomed to 'merge' to constitute a 'hybrid path'. That situation was considered by Deeg to be a critical juncture (that is, the moment when actors consider leaving the old path to join a new one) (Deeg 2002).

Findings reported above tell a quite different story: differentiation seems a permanent feature of the financial system - not a residual made permanent by sticky institutions. On the contrary, differentiation is periodically renewed.

Instead of path, and path change, therefore, I would suggest to use looser and more flexible concepts such as, for instance, 'evolutionary configurations', which emphasizes contingency and non-ordered patterns of change. Moreover, to capture the diversity of patterns encountered in the present study, I would argue for multiple evolutionary configurations. The appendix gives a visual idea of such concept. What we see is, at the outset of the period under study, a variety of

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<sup>25</sup> Even though, quite paradoxically, Pierson's seminal article implicitly assumed that increasing returns would occur in settings where political life would be characterized by multiple equilibria (Pierson, 2000).

forms (of economic organization, of institutional development). Over time these forms evolve to something else. There is some path change and path dependency. But there also other types of change. At the end of the period, we still have a diversity of forms, but a ‘different diversity’ from that of the beginning. A further two-country comparison would give interesting results, as to what forms are more likely to evolve faster, what forms will end up similar for both countries, and so on. This could be the subject of future research...

### *5.3. The institutional bias in explaining change*

Institutions<sup>26</sup> do matter for understanding economic and political change. It is not the purpose of this paper to dismiss the vast contributions of various strands of institutionalism to social sciences. But, as explained earlier, the research was primarily focused on infra-institutional change, i.e. changes at the level of individual and group behavior.

And the main reason why this research diverges in its findings from some assumptions widely held in the literature (such as system congruence and time consistency) lies precisely in that difference of units of analysis. I argue, indeed, that the institutionalist analysis in use in most VOC works generates a built-in assumption of homogeneity and of systemic congruence. This bias has several causes. The first one is the strong implicit linkages between institutions and regulatory regimes. Many sets of rules are indeed institutionalized in formal arrangements sanctioned by the legislator. This is true in banking as well as in other sectors. Yet regulatory regimes, because they imply authority and hierarchy or rules, inevitably imply congruence or homogeneity. Thus looking at institutions from the regulatory angle clearly orients the analysis towards a more homogeneous, or logically congruent, picture of reality. This confusion between ‘systems’ and ‘regimes’ is made for instance by Story and Walter, despite their careful definitions of both terms<sup>27</sup>.

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<sup>26</sup> We can conceive of institutions as the ensembles of rules, formal or informal, that shape agents’ behavior through incentives and constraints. This is a slightly modified version of Peter Hall’s popular definition (Hall, 1989).

<sup>27</sup> rrrr

Another issue is the implicit assumption of efficiency behind institutional path choice. This assumption is captured by increasing returns theory. I argued above that there is more than an alternative between change and non-change. I would further argue here that the resulting configurations do not rely solely on efficiency considerations. A specific set of institutions might hide a whole range of behaviors. Some agents may choose to buy into the new institutional arrangement with the hope that they can change it over time (voice); others may have ‘signed up’ to the new arrangement while undermining it by foot-dragging; others yet might officially support the institutional arrangements while escaping the rules underneath (exit). This last point could apply to the informal sector, for instance, even though this is not very relevant when considering financial systems. All those different strategies do not assume that remaining on the same path is the most efficient solution; but no other path seems attractive either. A top-down analysis of institutional analysis could run the risk of ignoring those behaviors and construct a misleading homogenous view of economic change.

A final source of bias is the (explicit) assumption of institutional complementarity between sets of rules across all types of economic and political interactions, at the basis of many VOC works (see Hall and Soskice 2001 for a review). This hypothesis inevitably leads to the assumption of systemic congruence. Deeg relaxes that assumption and considers the possibility that one institution might evolve along a path different from that followed by other previously complementary institutions (Deeg, 2001). Again, however, that possibility does not seem to be a permanent feature.

#### *5.4. Conclusions*

The discussion above does not imply that ideal-types as an analytical tool should be abandoned. Rather, it suggests that comparative studies of national capitalisms might be misleading if they presume systemic congruence. On the contrary, the research findings presented here point to ‘systemic incongruence’ – that is, within national economic systems different *logics* compete with each other and struggle for domination. In that sense, institutions at time *t* represent a fragile equilibrium between those logics.

Moreover, this systemic congruence is dynamic: it constantly changes form. Some of these changes can be captured by path dependence theory. But that theory is too restrictive, and its premises are flawed with a binary understanding of change. I have argued that change is much more variegated than path dependence theory would predict. I suggested using much looser concepts to grasp change, such as ‘evolutionary configurations’.

### **Conclusions: Implications for future research**

Future research should be designed so that to avoid running into the ‘top-down institutional bias’ evoked above. A first step would be to look deeper into infra-institutional change. As a second step, research should explore the concrete relationships between actors and institutions. That would require better models of agents’ behavior than the ones used proposed, for instance, by rational choice theory.

A second research agenda could look at the ‘systemic’ characteristics of national capitalism: how do these relate to regulatory regimes? To what extent, for instance, do Italian southern cooperative banks and northern merchant banks form a unique system?

A third possible direction for future research would be to compare the patterns of differentiation evoked above. How do differences crystallize in each country? The comparison between France and Italy already hinted at possible general statements about the two countries’ trajectories. For instance, the regional rooting of Italian banking is historically stronger than in France. How does it impact on current trends?

It should be noted that the infra-institutional research called for is not contradictory with cross-country comparisons. In fact, I contend that looking at what happens *within* national capitalisms could give us some insights about those capitalisms’ trajectories *vis-à-vis each other* as well. One hypothesis that could be advanced in the light of the present findings is that the more differentiation there is within a system, the more likely that system will differ from another one.



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