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Capitalism, variety is the spice

of life

Capitalism is no longer merely the dominant economic model but almost universal. Nevertheless, are all the countries conventionally considered to be based on capitalism truly capitalist?

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Álvaro Leandro
Àlex Ruiz



The US and Germany are very different - that much is clear - but they share a common trait: both are capitalist countries. In fact, if we take a quick look at all the countries of the world, it is easier to identify those that are not capitalist:

essentially North Korea and Cuba.¹ Therefore, capitalism is not merely the dominant economic model - it is practically universal. That being the case, when we look at the economic reality in more detail, questions begin to arise: is an economic system in which free dismissal is commonplace (the US) really the same as another in which it is heavily regulated (practically all of Europe)? Is one where public social spending amounts to 31% of GDP (France) the same as another where it barely exceeds 11% (South Korea)? We could go on, but the scepticism seems justified: in reality, are all the countries that are conventionally regarded as capitalist really so? The short answer is yes, the economy can be organised in a wide range of institutional forms while still operating under the logic of the market. In other words, capitalism can take significantly different forms without altering its underlying nature.

1. Nominally communist countries are more numerous, but in practice they are hybrid systems, with easily identifiable elements of capitalism. A prime example is Vietnam - or even Venezuela.

Free market economy versus coordinated market economy

In the academic literature, these different forms are referred to as varieties of capitalism. Indeed, the very evolution of this body of literature sheds some light on the subject we are interested in, namely the reflection on the anomalies (such as low growth, rising inequality, etc.) that capitalism seems to accumulate, as set out in the previous article of this Dossier. In our view, we are better prepared to delve deeper into this debate if we are able to identify forms of capitalism that are better prepared to deal with these problems.

The first great distinction offered by the literature is quite logical, since it proposes the existence of two major varieties. The first, which typically embodies the US, is known as the liberal market economy and, as set out in the first table, is characterised by elements such as a greater predominance of coordination through the market, a highly-flexible labour market

and a less important role of regulation and public intervention. The second major variety is known as a coordinated market economy or, alternatively, a «social market economy». This variety is characterised, inter alia, by less market-mediated coordination, a more regulated labour market and a greater role of public intervention.²

2. See P.A. Hall and D. Soskice (Eds.). (2001). «Varieties of capitalism: The institutional foundations of comparative advantage». OUP Oxford.

Main characteristics of the key varieties of capitalism

	Liberal market economies	Coordinated market economies
Coordination mechanisms and main institutions	Market and contracts	Market (to some extent) and non-commercial institutions (collective bargaining, multi-sectoral organisations, etc.)
Key sectors	Innovative sectors which produce radical changes and in which dynamism is important	Sectors based on the accumulation of competencies and incremental change
Political system	Presidential, with few parties and majority electoral systems geared towards political competition	Several parties, proportional and parliamentary systems geared towards consensus-building
Type of welfare state	Liberal, complementary	Universalist
Labour market	Flexible and dynamic, a predominance of the legal framework at the company level, tending towards high rotation	Predominance of the legal framework at the sectoral or national level, long-term contracts, rigidity and less flexibility
Workers' competencies and skills	General, favouring rotation between sectors	Specialised and idiosyncratic, geared towards permanence in the sector
Horizon of productive investment	Short term	Long term
Typical organisational structures within companies	Vertical, with decision-making capacities concentrated within senior management levels	Horizontal, with greater sharing of decision-making capacities among players
Type of innovation	Dynamic, disruptive	Incremental

Source: CaixaBank Research, based on J. Aguirre y R. Lo (2012). «Variedades de capitalismo. Una aproximación al estudio comparado del capitalismo y sus aplicaciones para América Latina». Centro Interdisciplinario para el Estudio de Políticas Públicas. Working Paper 85.

A world of diverse capitalisms in transition

While attractive for their simplicity, these two categories seem overly simplified, as it is too rigid a structure to accommodate the multiplicity of forms of capitalism that exist, particularly since it has become the dominant productive model following the fall of the Berlin Wall. As the former communist economies develop towards different forms of capitalism and the liberalising processes of Europe's economies within the framework of the EMU accelerate, as globalisation expands and incorporates more countries and, finally, as the technological revolution accelerates, it becomes apparent that hybrid forms of capitalism take on greater importance.

Thus, it is possible to detect varieties that share many of the liberal characteristics but not all of them (which we refer to as quasi-liberal market economies), and others that resemble social market economies but with differences (which we call quasi-coordinated market economies). In addition, a more detailed review of the past shows that there has been a variety which is commonly referred to as a state-dominated economy and which, characterised by an important role of the state in coordination mechanisms, has been relevant in certain countries.

In short, it is possible to use this latest academic literature to paint an updated picture of today's capitalist world that allows us to understand it better.³

Specifically, the taxonomy proposed is built using a series of variables that reflect the disparity of institutional arrangements that can be used to organise a market economy (e.g. the degree of worker protection, the importance of financial markets, labour relations, etc.). By means of a segmentation exercise, countries that have similar indicators in these areas can be identified and the five varieties of capitalism discussed above can thus be proposed: liberal, coordinated, quasi-liberal, quasi-coordinated, and state-dominated market economies (see the results in the second table).

As can be seen in the second table with our updated classification of countries assigned to the different varieties of capitalism, the growth of hybrid varieties of capitalism becomes apparent, namely quasi-liberal and quasi-coordinated varieties. In particular, it is important to note that countries that are typically coordinated have relaxed some of their most characteristic aspects through reforms that introduce liberal elements. The prime example of such hybridisation is surely Germany, which went from being an archetypal coordinated market economy to being quasi-coordinated following the major liberalising reforms of the 2000s (in particular, the so-called Hartz labour-market reforms, which made it significantly more flexible). Another interesting element to note about the transitions between varieties is the disappearance of the variety we call the state-dominated market economy. This is largely the result of the liberalisation process which took place in economies such as Spain and Portugal as part of their full integration into the European market and the subsequent privatisations that took place in the transition towards the creation of the single currency.

In short, if these trends are a reasonably good representation of the world over the past 30 years, upon reviewing them the reader may well find themselves raising the questions that we addressed in the first article of the Dossier. Which of these varieties are capable of generating better growth rates on a sustained basis? Which ones are better at limiting the tendency towards inequality? Which ones are more innovative? Paradoxically, the academic world has paid relatively little attention to this relationship between varieties of capitalism and economic and social outcomes. While there are some exceptions,⁴ the questions that are relevant to the ordinary citizen have not been sufficiently studied. We, on the other hand, cannot afford to ignore such an important issue. Let us, therefore, seek to shed some light on the outcomes of the different varieties of capitalism in the next article. Some surprises await us.

3. See M.R. Schneider and M. Paunescu (2012). «Changing varieties of capitalism and revealed comparative advantages from 1990 to 2005: A test of the Hall and Soskice claims». *Socio-Economic Review*, 10(4), 731-753.

4. See D. Acemoglu, J. Robinson and T. Verdier (2012). «Can't We All Be More Like Nordics? Asymmetric Growth and Institutions in an Interdependent World». NBER Working Paper 18441. National Bureau of Economic Research. Working Paper 18441. National Bureau of Economic Research.

Varieties of capitalism: member countries

	1990	2015
State-dominated economies	Turkey Italy Spain Belgium Greece	
Coordinated market economies	Austria Germany Denmark Finland Sweden France Netherlands	Portugal Italy France
Quasi-coordinated market economies	Norway Japan	New Zealand Japan Greece Turkey Poland Germany Czech Republic South Korea Hungary Poland
Quasi-liberal market economies	Australia New Zealand Ireland Switzerland	Sweden Ireland Finland Denmark Austria Netherlands Norway Spain Belgium
Liberal market economies	US United Kingdom Canada	Australia Canada US Switzerland United Kingdom

Note: Update of the classification by Schneider and Paunescu, with new data up to 2015. Developed using the cluster analysis technique, a method of grouping, with socio-economic and institutional data (e.g. the degree of worker protection, the importance of financial markets, labour relations, etc.).

Source: CaixaBank Research, based on Schneider and Paunescu (2012), and data from the OECD, UNCTAD, the IMF and the World Bank.

Álvaro Leandro
Àlex Ruiz
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