

The promises of the varieties of capitalism, or on the impossibility of having it all

The American political philosopher John Rawls coined the concept of the «veil of ignorance». Under this somewhat cryptic expression lies a suggestive notion: in order to determine which society is the best one to live in, we must ask ourselves: «if I did not know what position I would have in this society, in what kind of society would I choose to live in at birth?» Rawls raised this concept in terms of a fairer society, but we are going to propose the following reflection: in view of the available evidence and your preferences, in which variety of capitalism would you, dear reader, prefer to «live»? Let us review the list of the main options available.

One way to draw up this list is to compare different socio-economic characteristics in the different varieties of capitalism (see table below). As mentioned in the previous article, a first major distinction can be made between those economies that have greater coordination through the market, a high degree of labour flexibility or a less prominent role of regulation and public intervention (liberal economies) and those that are characterised by less market-mediated coordination, a more regulated labour market and a more prominent role of public intervention (coordinated economies, also known as social market economies). In addition, we can identify two variants that share some, but not all, characteristics (quasi-liberal and quasi-coordinated) and a fifth variety whose most relevant feature is the predominance of public activity. This exercise allows us to draw our first major conclusion: in many areas, hybrid varieties – i.e. quasi-coordinated and quasi-liberal market economies – currently seem to offer good possibilities in terms of growth, innovation and inclusiveness.

However, in order to refine our analysis, we must go beyond the current cross section and, by means of an econometric exercise (see the methodological details in the chart), connect the main socioeconomic variables with the various forms of capitalism and their evolution over time since 1990. Let us take a look at the result of this analysis.

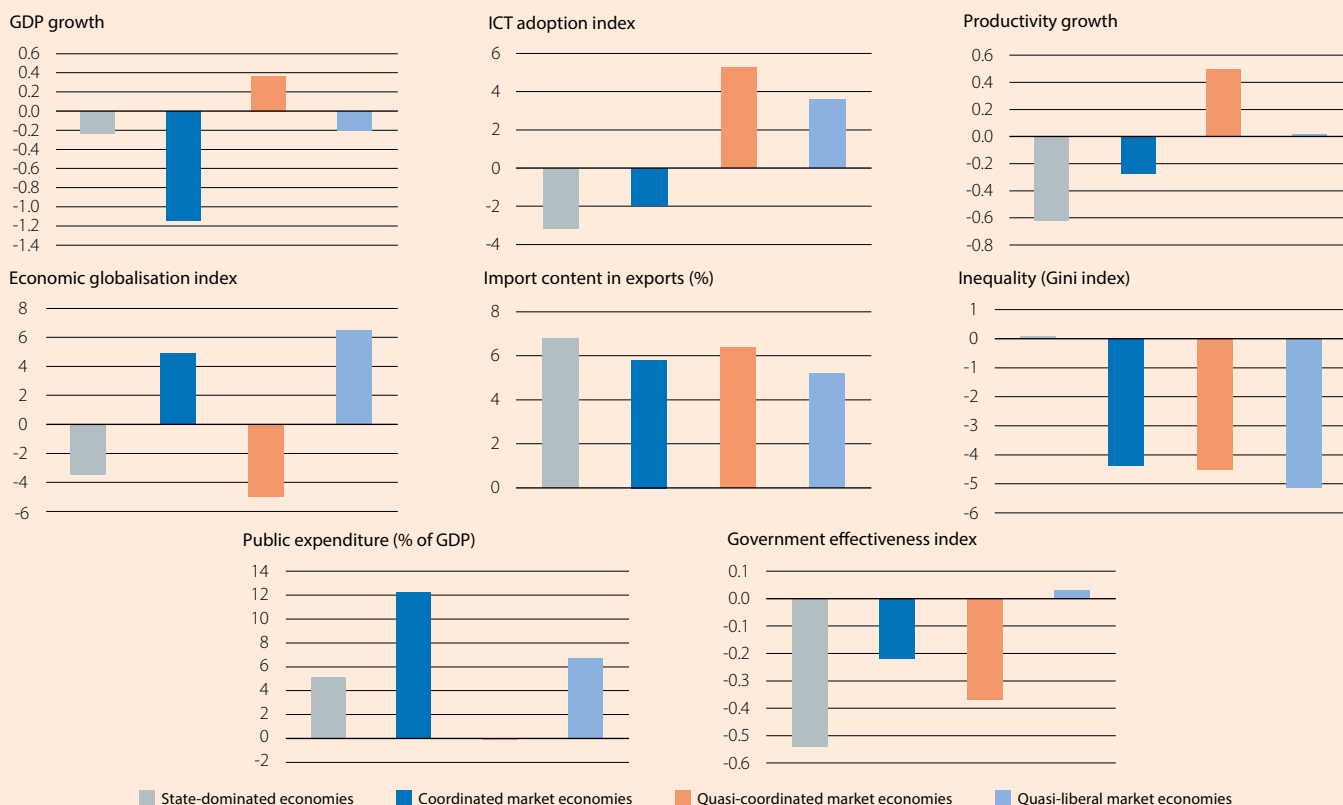
Key characteristics of the varieties of capitalism

	Liberal market economies	Coordinated market economies	Quasi-coordinated market economies	Quasi-liberal market economies
Equity sphere				
Gini index (2015-2018)	35.3	34.5	32.7	29.6
Inclusive growth index (2018)	5.2	4.4	4.7	5.4
Growth sphere				
GDP growth (2015-2020)	0.5	0.4	0.6	1.1
Inflation (2015-2020)	1.2	0.7	2.3	1.1
Digitalisation/technology sphere				
ICT adoption index (2018)	74.0	69.8	71.9	76.3
Productivity growth (2015-2018)	0.5	0.4	0.6	1.1
Labour productivity growth (2015-2019)	0.7	0.4	1.7	1.4
Remote working (2018)	43.3	35.3	31.2	39.7
Globalisation sphere				
Globalisation index (2015-2017)	85.8	84.8	81.0	88.2
Economic globalisation index (2015-2017)	74.5	75.5	71.6	83.5
Import content in exports (%) (2015)	18.8	29.0	27.8	27.0
Sphere of importance of public intervention				
Deficit as a percentage of GDP (2015-2019)	-1.6	-2.5	-0.6	0.0
Debt as a percentage of GDP (2015-2019)	72.9	117.9	82.0	64.5
Hospital beds per 1,000 (2015-2018)	3.3	4.2	7.0	3.9
Total expenditure on healthcare as a percentage of GDP (2015-2018)	11.8	9.8	8.0	9.8
Investment in healthcare as a percentage of GDP (2015-2018)	51.0	58.0	19.6	54.2
Regulatory quality (2015-2018)	1.7	0.9	1.0	1.6
Government effectiveness (2015-2018)	1.7	1.0	1.0	1.6
Satisfaction of needs sphere				
Life expectancy (2015-2018)	81.6	82.3	80.1	81.9

Notes: Averages of the years in brackets. Higher values of the inclusive growth index correspond to more inclusive growth.
Source: CaixaBank, based on data from the OECD, the IMF, the World Bank and the KOF Swiss Economic Institute.

The impact of the different varieties of capitalism on the main socio-economic variables

Difference compared to liberal market economies



Notes: These charts show the results of 6 OLS linear regressions using panel data with 26 countries and 7 periods. In each regression, the dependent variable is one of the six socio-economic variables, while the explanatory variables are binary variables that denote the variety of capitalism to which each country belongs in each period (the binary variable for the liberal market economy variety is excluded) and control variables for GDP per capita and fixed time effects. The charts show the magnitudes of the coefficients of the four binary variables denoting the variety of capitalism. Since the binary variable for the liberal market economy variety was excluded, these coefficients can be interpreted relative to this variety. For example, the results of the regression with the Gini index as the response variable suggest that, on average and using GDP per capita and fixed time effects as control variables, coordinated market economies have a Gini index that is 4.37 points lower than liberal market economies, while in state-dominated economies the difference compared to liberal market economies is not significant.

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

Growth as an indispensable requirement

Throughout this Dossier we have reiterated that any economic system that is unable to create prosperity at a minimally acceptable level is condemned. On this note, if growth is the goal then our econometric exercise, which is summarised in the charts below, is quite conclusive: quasi-coordinated and liberal market economies are the two forms of capitalism that offer the most growth in the long term. On the other hand, the coordinated variety offers worse results in terms of growth.

What is the basis for this outcome? Firstly, quasi-coordinated economies stand out for their higher productivity growth, whether measured in terms of apparent labour productivity or in terms of total factor productivity (TFP). Another area that can be linked to long-term prosperity is the ability to take advantage of globalisation, as there is a clear link between an economy's openness to international trade and growth.

The great dilemma: efficiency in exchange for equity?

So far, the list of options can be summarised as follows: if creating prosperity is the goal, regardless of the extent to which it is done in accordance with innovation or globalisation, then the best option is to play it safe and choose liberal, quasi-liberal, or quasi-coordinated economies. State-dominated economies (when they existed) lag further behind. Coordinated economies are best avoided. But what if the price that must be paid for this growth is an unacceptably low level of equity? Judging what is considered unacceptable is beyond our reach and will depend on everyone's individual preferences. What we can assess, however, is to what extent the different varieties of capitalism are equitable. The results offer some surprises.

Whereas liberal economies display the least equity (as expected), it is somewhat surprising that the «hybrid» forms, namely quasi-liberal and quasi-coordinated economies, are more equitable than coordinated ones. It is indeed a paradox that despite coordinated economies having higher public spending than the rest – suggesting a greater predominance of public intervention

in the economy – this does not translate into higher levels of equity. Part of the problem might be that the efficiency indicators for the public sector of coordinated economies are not all that good, although the state-dominated and quasi-coordinated economies are not exactly exemplary in this area either.

On the ability to choose

In any case, on the basis of our analysis we come to the interesting conclusion that at least two of the varieties of capitalism, namely quasi-coordinated and quasi-liberal, have managed to offer satisfactory results in terms of growth while simultaneously achieving a good level of equity (at least comparatively speaking). This offers us a glimmer of hope to counter the apocalyptic views that deny capitalism the chance to reach a certain virtuous equilibrium related to human welfare.

The question, however, is whether this preference for one variety of capitalism or another is solely based on economic considerations. While an in-depth exploration of this issue is beyond the scope of this article, one thing we can do is propose an underlying thesis: cultural elements, defined in a broad sense, undoubtedly also play an important role. In a [previous Dossier](#)¹ we found that what we referred to as the illiberal shift in economic policy could be linked, to a not so negligible degree, to cultural factors such as the values of each society. As explained in the article «Capitalism, variety is the spice of life» of this same Dossier, the fact that the number of countries within the liberal category has fallen by half in the last two decades can be linked, to some extent, to this illiberal shift. Therefore, while there is no denying the importance of economic factors, the fact that cultural elements also appear to be behind this option should not be overlooked. This is a lesson we must remember, because, as we will explore in the next article of the Dossier, tough times lie ahead for the varieties of capitalism that are less well equipped for the world we are entering into.

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1. See the Dossier [«The threat of the illiberal shift»](#) in the MR01/2020.