

Capitalism(s) for tomorrow's world

At this point in the Dossier, we trust we have convinced the reader that the different varieties of capitalism offer a combination of differing economic and social outcomes. No particular one of them is, *a priori*, inherently better than the others, as everything will depend on the historical context: some are better equipped for certain situations, while they will fare worse in other circumstances. So, in the world that lies ahead of us, which varieties of capitalism are likely to work the best? As for the rest of them, is there hope for change and evolution?

Tomorrow's world began yesterday

We are writing, still, under the impact of the COVID-19 outbreak and its halo of uncertainty, incomparably greater than that of old times. In this context, is it possible to identify any key aspects of the medium- and long-term future that will not be overwhelmed by the vortex of recent events? With all possible prudence, we believe that reviewing the lessons of the past provides us with two major conclusions. The first is that history reminds us that major shocks, including pandemics like the current one, have structural effects. In other words, they change the long-term dynamics.¹ The second is that such shocks act in many spheres, but particularly in the institutional sphere.

After all, the different varieties of capitalism are the result of a particular combination of a number of institutional elements. Therefore, the question that needs to be considered now is what kinds of pressures will the different varieties suffer as a result of the transmission of this shock. It is time to raise questions such as whether the varieties that rely the most on coordination through the market, a high degree of labour flexibility or a less prominent role of regulation and public intervention (liberal economies) will work the best. Or will it be those characterised by less market-mediated coordination, a more regulated labour market and a greater role of public intervention (coordinated - or social - market economies) that will fare the best? Alternatively, perhaps the «hybrid» varieties (quasi-liberal and quasi-coordinated economies) will yield better results in the future.

Critical spheres of change: economic dynamism, resilience and equity

In recent months, various analyses have been produced that identify different aspects of our economy, society and politics that will change as a result of the pandemic. In particular, there is expected to be an acceleration in certain trends, such as digitalisation, with the emergence of new ways of working and consuming. It is also expected that we will see changes in the ways we produce, with a shift towards less globally fragmented value chains. These analyses also mention the increased role of governments and public action in order to help withstand the economic shock and provide greater resources to the health system.

We could go on, but this list is already sufficient to illustrate three major spheres that encompass what we might call demands, or requirements, on the system: economic dynamism, resilience and equity. These three spheres are by no means self-contained compartments, but defining them as separate blocks can help us to understand them better.

The sphere of economic dynamism is critical in any economic system since, in our view, if it is not met then the system simply collapses. Communism failed because its efficiency level and, consequently, its growth levels were very low. Capitalism, on the other hand, is predominant because it tends to be efficient and, as a result, capable of delivering sustained economic growth over time. This demand will therefore persist in the future, as it did in the past.

A second sphere is that of resilience, which underlies many of the aforementioned changes. This relates to ensuring that the economic system is stronger than it was in the past. This resilience operates at different levels, such as the shift towards local suppliers (viewed as less vulnerable) and the relocation from major corporate headquarters to smaller units (even employees' own homes). But it also encompasses public policy decisions, such as bolstering healthcare resources or economic interventions to support private liquidity and funding needs. This sphere of resilience is relatively new and has accelerated following the pandemic, although some elements had already begun to emerge in recent years.

Finally, the last sphere is that of equity. Strictly speaking, many economic systems have been able to generate sufficient economic growth for long periods without addressing equity issues. However, at least since the Great Recession of 2008-2009, it has become clear that society understands that a certain degree of inclusiveness of growth is indispensable. The COVID-19 crisis, in our view, intensifies the demand for prosperity for all (or at least for many), as demonstrated by the measures, either currently being conceived or already implemented, that should promote inclusive growth.

1. In this regard, see the Dossier «[The world after COVID-19](#)» in the MR05/2020.

Differing pressures on the different varieties of capitalism

Are the different varieties of capitalism ready to meet the demands of dynamism, resilience, and equity? In order to answer this key question, we have associated a wide range of socio-economic characteristics compiled in the article «The promises of the varieties of capitalism, or on the impossibility of having it all» with the three spheres mentioned above (see chart).

As expected, the different varieties are not all in the same position to meet the demands set out above. Quasi-liberal economies (which, according to our classification, include Spain and the Nordic countries, among others) appear to be in the best position, as they offer good results in all three spheres: they have the best starting point in terms of economic dynamism and equity, and the second best in terms of resilience. Liberal economies appear to have resilience levels similar to quasi-liberal economies, but with lower levels of growth and equity. Finally, quasi-coordinated and coordinated economies seem to be subject to greater tensions since, while both varieties exhibit a similar level of economic dynamism, coordinated economies are in a relatively worse position in terms of equity, while quasi-coordinated economies fall short of the other varieties in terms of resilience.²

This diagnosis certainly tells us which varieties are in a better or worse position to deal with the shock in the short term, but this may not necessarily be the case in the long term, since one of the fundamental elements of capitalism is its capacity to adapt.

On the possibility of change in capitalism

As we have seen in the article «Capitalism, variety is the spice of life», in recent decades state-dominated capitalism has disappeared and the more «pure» varieties, such as liberal and coordinated capitalism, have lost representatives in favour of «hybrid» models. This suggests that change is not just a theoretical possibility, it is a historical reality. Under normal conditions, the institutions that make up the varieties of capitalism evolve slowly. However, when major disruptions occur, that evolution accelerates or, in dramatic cases, new varieties may even appear. Once again, building future scenarios is fraught with uncertainty, but the past can provide us with some lessons.

When we review the institutional history of capitalism over the last two centuries, we can identify three major phases.³ The first one begins in the mid-19th century and continues, with notable ups and downs, up until the inter-war period. This is a world in which capitalism takes the form that we usually describe as *laissez-faire*, that is, with few regulatory and institutional counterweights to the market and, in most countries, a non-existent or only an incipient welfare state. In the financial sphere, it is the time of the gold standard.

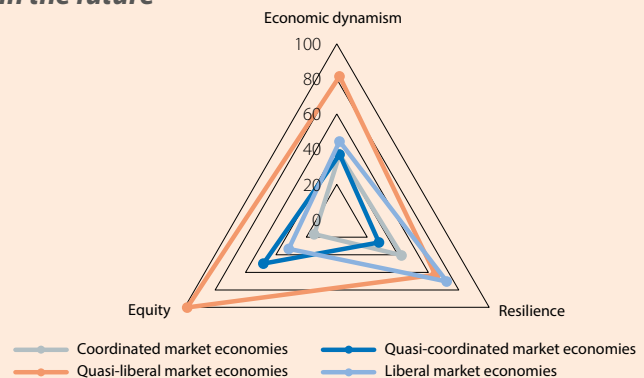
After the Second World War, the system mutates and significant elements of public intervention are introduced (for instance, the welfare state is developed in Europe). Furthermore, the system of multilateral institutions is developed and the foundations for today's economic and financial globalisation begin to be laid. This is the time of Keynesian economic policy.

Finally, following the collapse of the Bretton Woods system and the supply shocks of the 1970s and 1980s, capitalism is reformed with a decline in the role of public intervention in the economic system, a shift away from Keynesian policies in favour of the supply-side economy, and the introduction of what, in a [previous Dossier](#), we referred to as the liberal consensus.⁴

From this brief review we can draw a simple but powerful conclusion: since approximately 1850, capitalism has repeatedly transformed itself, partly in response to a wide variety of shocks and trends, and with each transformation the institutional fabric that sustains it has also undergone profound changes. This capacity to adapt has been the key to its survival, and we believe that this time should be no different.

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Varieties of capitalism: position in key spheres in the future



Notes: An index ranging from 0 to 100 is calculated for each sphere, such that if a particular variety is the best in all the variables that make up that sphere then it scores 100 and if it is the worst it scores 0. The economic dynamism sphere comprises growth, inflation, the ICT adoption index, TFP growth, labour productivity growth, the remote working index, the total globalisation index, the economic globalisation index and the content of imports in exports. The equity sphere comprises the Gini index and the inclusive growth index.

The resilience sphere comprises the ICT adoption index, the remote working index, public debt, the public deficit, hospital beds per 1,000 people of the population, total healthcare expenditure, investment in healthcare, regulatory quality and government effectiveness.

Source: CaixaBank Research.

2. These results are different from those we identified in the analysis in the previous article, from which quasi-coordinated economies emerged better off. However, the two analyses differ, since here we are focusing on the economies' position as it stands today. With all the necessary caution, our interpretation is that, looking ahead to the future, the current position in the various spheres is more relevant than that derived from the historical analysis performed previously.

3. On this note, see, for instance, J.G. Ruggie (1982). «International regimes, transactions, and change: embedded liberalism in the postwar economic order». International organization, 36(2), 379-415.

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