

Comparative Capitalisms

Why look at Comparative
Capitalisms?

F. Fukuyama – “End of History?”

- Market and liberal democracy
- “Common Marketisation” of international relations

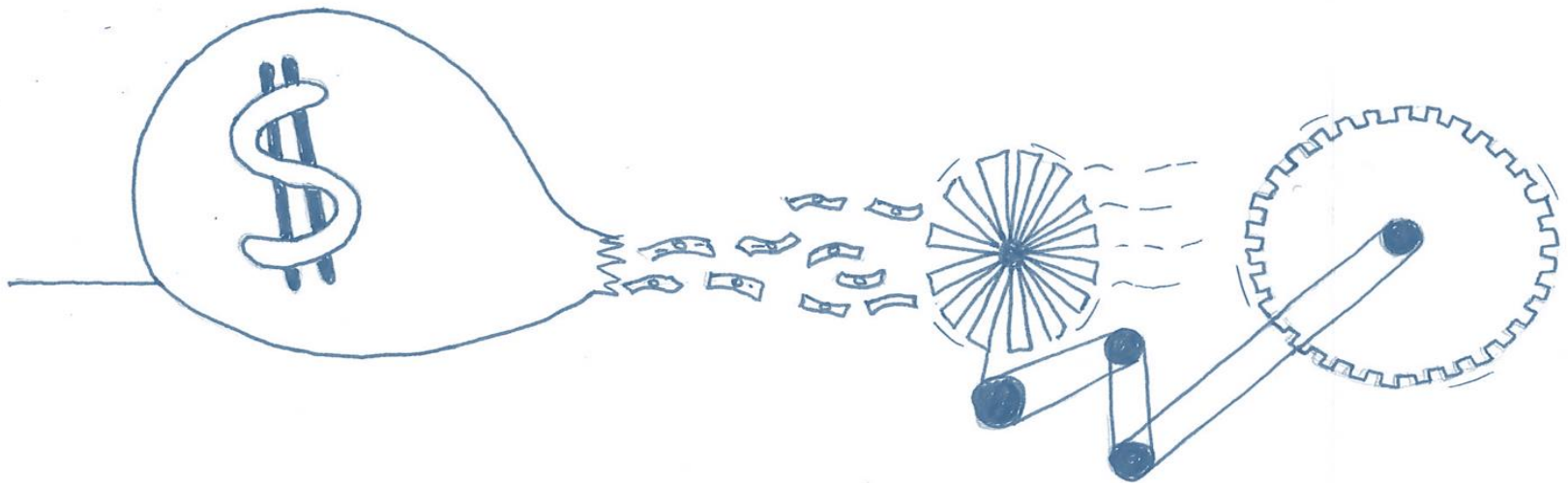


- Possible resistance to western model
- No worry about crises of capitalism

Great Moderation: mid-1980s to the financial crisis

Small fluctuations in growth and inflation:

- Dominance of monetary policy



Economic policy problems solved

Monetary policy targeting **low inflation**:

- Policy was **forward-looking**
- **Credible**
- Managed by **independent** central banks

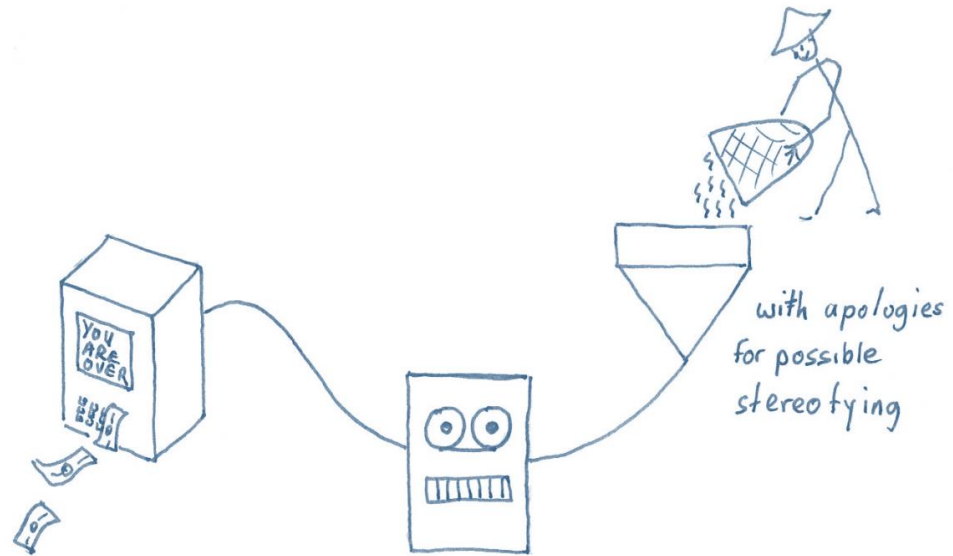
Liberalization of International Economy



Global capital markets

Deregulation

IT



Standardized accounting

US Leading Superpower

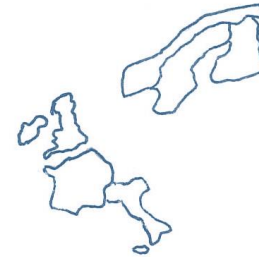
International liberalization led and guided by the US as global superpower.

- Markets
- Private property
- Liberal democracy

The “Washington Consensus”

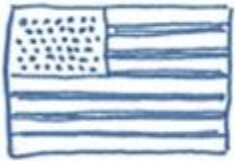
Countries are different

- Size
- Levels of development



Countries are different

Different institutions



Assumptions and limits of mainstream economics

Fixed economic behaviour

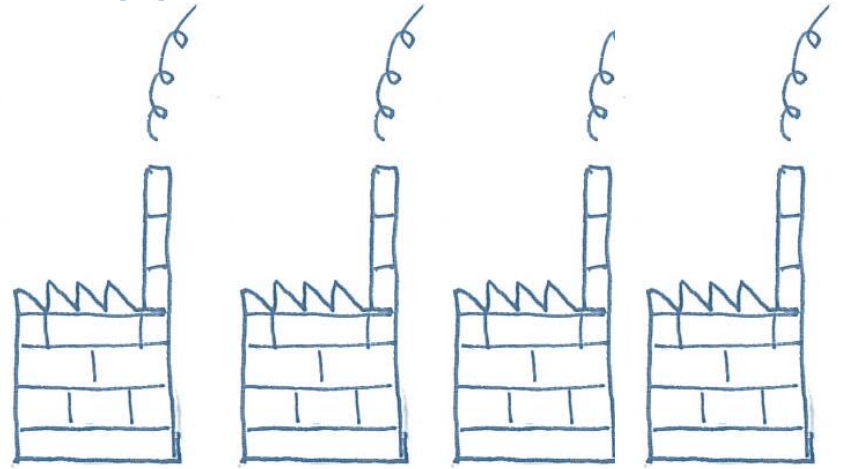
Utility maximisation

- **Consumer** theory



Assumptions and limits of mainstream economics

- Theory of the **firm**



- Partial and general equilibria

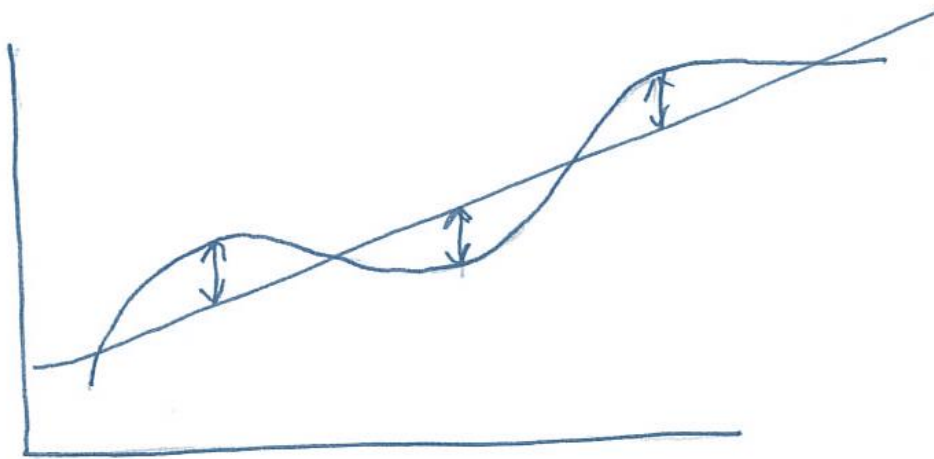


Failure to analyse change over time

- Convergence on equilibrium

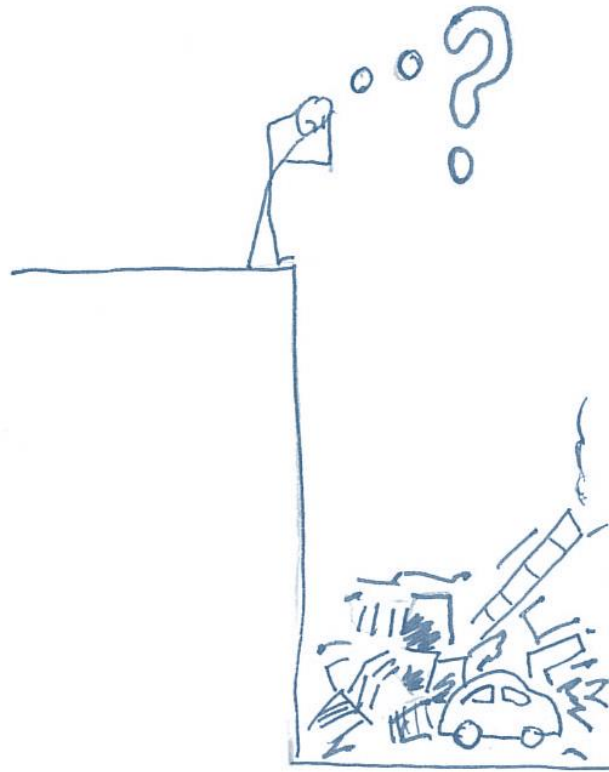
Stable

- A notion of **business cycles**



Failure to analyse change over time

But not profound and protracted **crisis or slump**



No power relationships

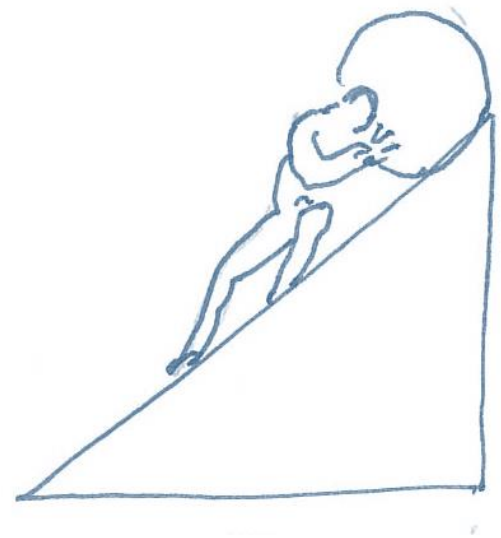
- The employment relationship is **fair**



- **Free trade** is assumed to be **fair** too

No sense of history

- Little analysis of **change over time**
- **Institutions** do not really change
- Human **behaviour fixed**



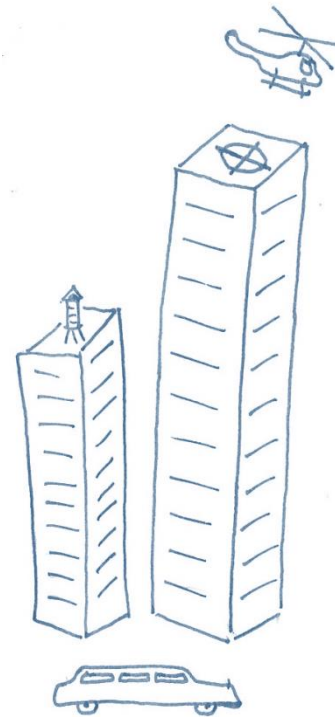
Comparative Capitalisms

Michel Albert, *Capitalisme contre capitalisme*, éd.

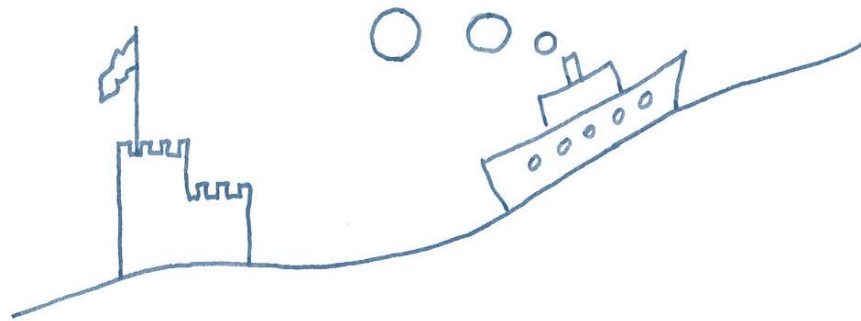
Du Seuil, 1991

US revival in 1980s

- Neo-American capitalism



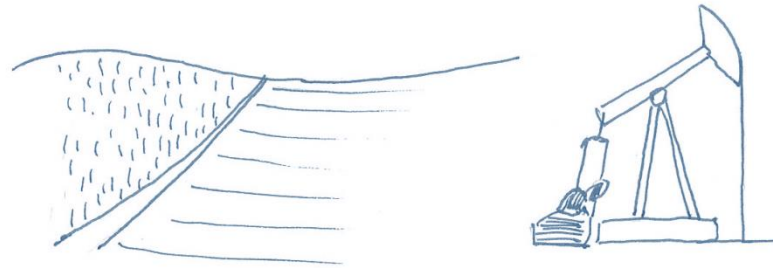
- Rhineland capitalism (*capitalisme rhénan*)



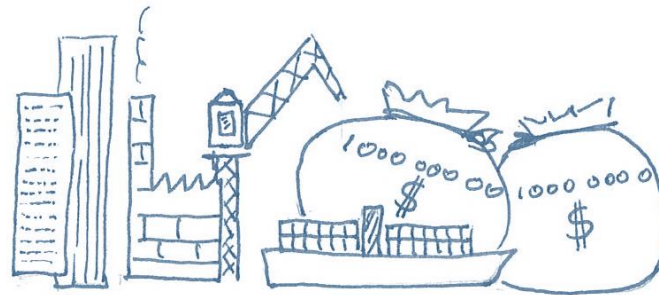
Neo-American capitalism

Historical strengths:

- natural resources



- large investment stock



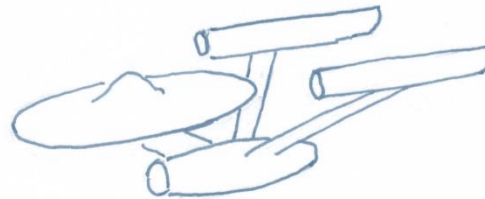
Neo-American capitalism

- dollar strength

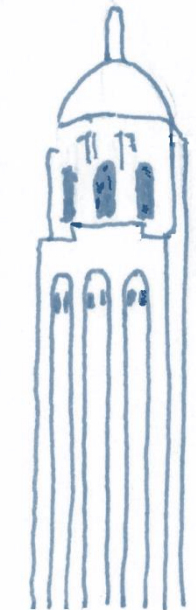


- financial industry

Star Trek



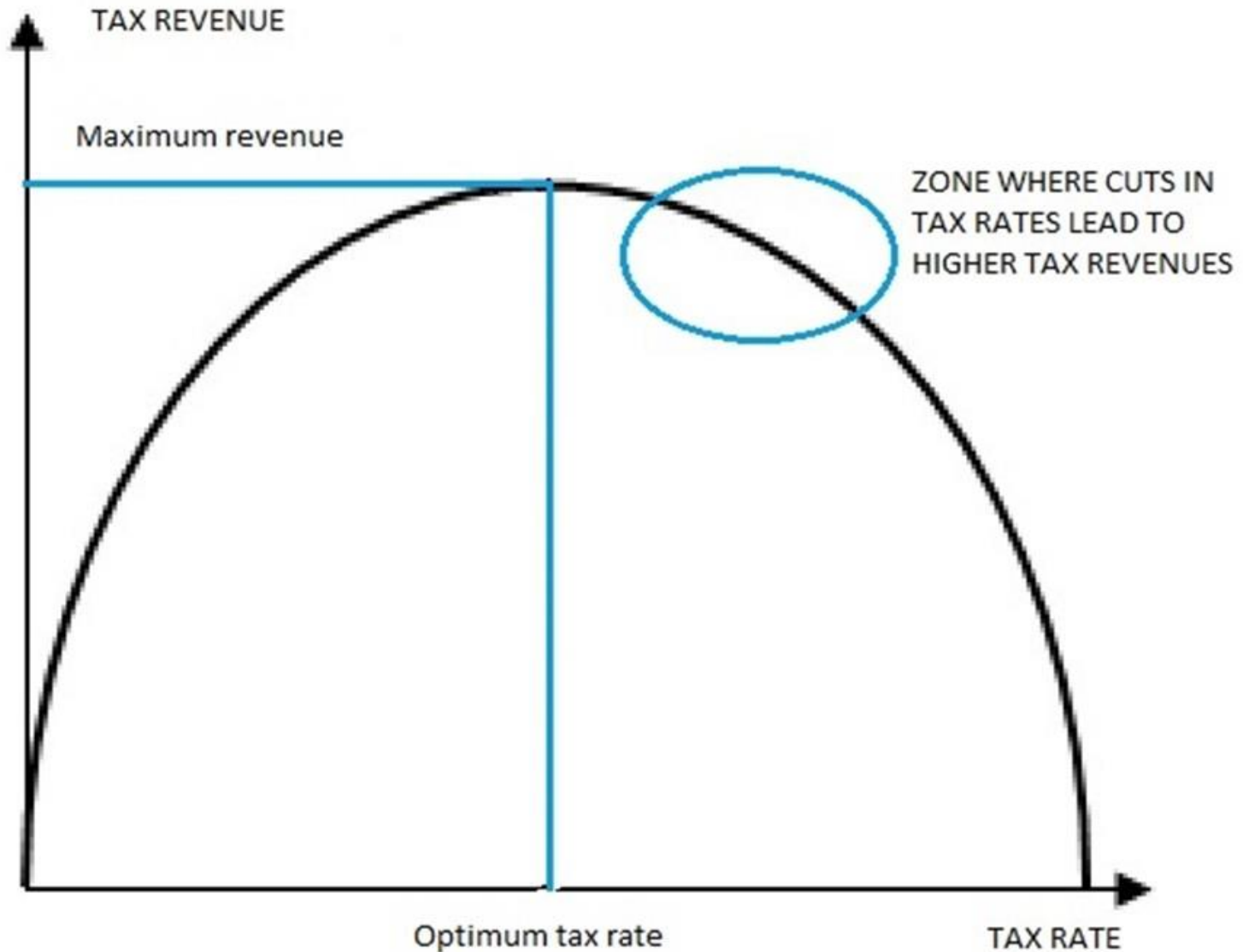
- military power



Stanford

- educational and cultural power

Supply-side economics Laffer curve – tax cuts



Supply-side economics Laffer curve – tax cuts

Emergence of **shareholder capitalism**

- Jack Welch (CEO General Electric):
“Growing fast in a slow-growth
economy”, 1981

**Return on Investment (ROI) of 15% per
year**

Supply-side economics Laffer curve – tax cuts

- Market deregulation
- Military spending and renewed confidence in US power

Rhineland Capitalism

- The **important role of banks** and the lesser role of stock market
- More **longer-term financing** and self-financing by companies
- **Partnership** with clients, suppliers and employees

Rhineland Capitalism

Partnership with powerful unions:

- Involvement in training – apprenticeship schemes
- Strongly developed social security
- Monetary stability managed independently

Rhineland Capitalism

Significantly, this is **not a Keynesian** system

- Germany's **social market economy**
- also the Netherlands, Scandinavia, Switzerland and Japan

Comparative Capitalisms: Section 7

Hall, P., and Soskice, D., (eds), *Varieties of Capitalism: The Institutional Foundations of Comparative Advantage*, Oxford University Press, 2001.

Inside the Black Box

- **Multinational** research project



- What is happening **inside** firms?

Five Relational Spheres

- 1/ Industrial relations
- 2/ vocational training and education
- 3/ corporate governance
- 4/ inter-firm relations
- 5/ employees

Spheres Structured by Institutions

Organisations, laws, customs

> share information

Institutions are national constructions

Complementarity > efficiency

Liberal Market Economies (LMEs)

- Access to capital through markets
communication of financial information
- Arm's length relationship with investors
Immediate (quarterly) returns
corporate governance

- Relations with other firms are “transactions based”, in competitive markets

Formal contracting

- Education and training support fluid labour markets

General education levels high BUT unskilled minority

High returns for higher education

Innovation

- Technology transfer via **movement of scientists**
- LMEs favour **radical technological change**



Coordinated Market Economies (CMEs)

- Closer **informal relationships** with banks
 - close-knit corporate networks
 - Private/inside information
 - Patient capital
- **Reputation** very important in long term

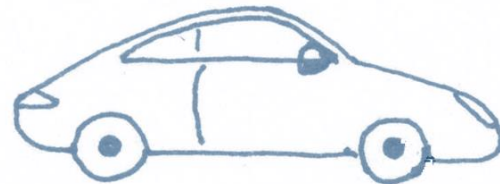
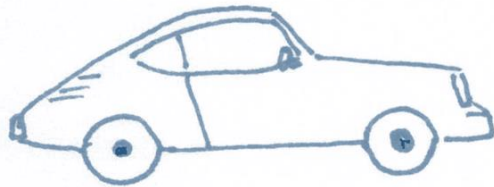
Employers' Organisations & Unions

- Bi-partisan management of labour-capital relationship
- Companies involved in training labour
high workforce skills

Employees exercise autonomy

Companies encouraged to retain labour during downturns

Given relationship with finance & labour, companies have comparative advantage in incremental innovation



Country Groups

LMEs: all Anglo-Saxon/English-speaking countries (US, UK, Australia, Canada, Ireland and New Zealand)

CMEs: Germany, Japan, Switzerland, the Netherlands, Belgium, Sweden, Norway, Denmark, Finland and Austria

Country Groups

- 6 countries in ambiguous situation:
France, Italy, Spain, Portugal, Greece, and
Turkey
a Mediterranean Group

Recent histories of large(r) agrarian
sectors, state intervention and non-
market coordination in finance.

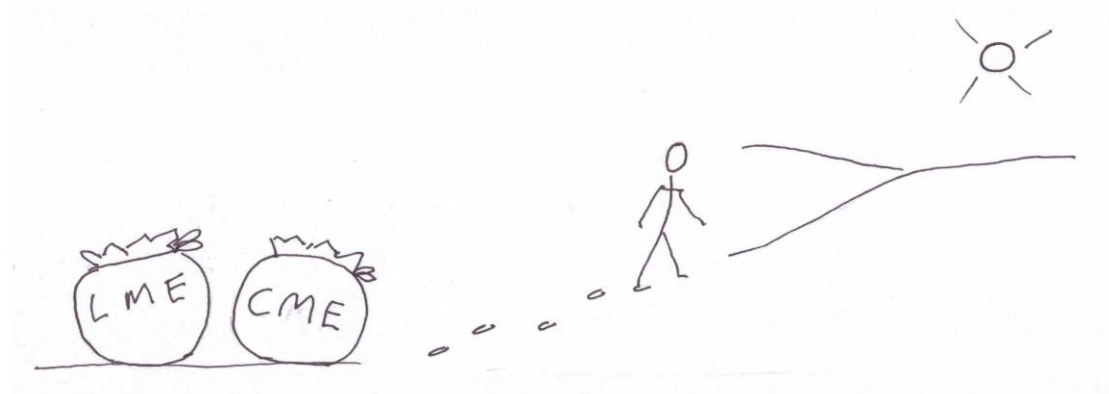
Comparative Capitalisms

Bruno Amable, *Les cinq capitalismes: diversité des systèmes économiques et sociaux dans la mondialisation*, Ed. Seuil, 2005.

From 2 Varieties of Capitalism to Diversity

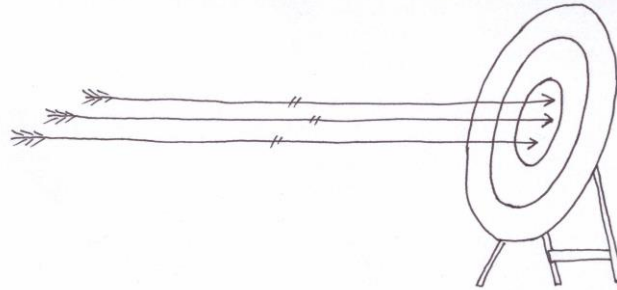
B. Amable extends literature

- From **Regulation theory** > institutional analysis of post-Fordism
- **Beyond two Varieties** (Albert, Hall & Soskice)



Basic Nature of Capitalism and National Systems

- major industrialised countries evolve **in parallel** – through neoliberalism



- or **national** systems – why not **regional**?

Institutional coherence

Efficiency of coherence

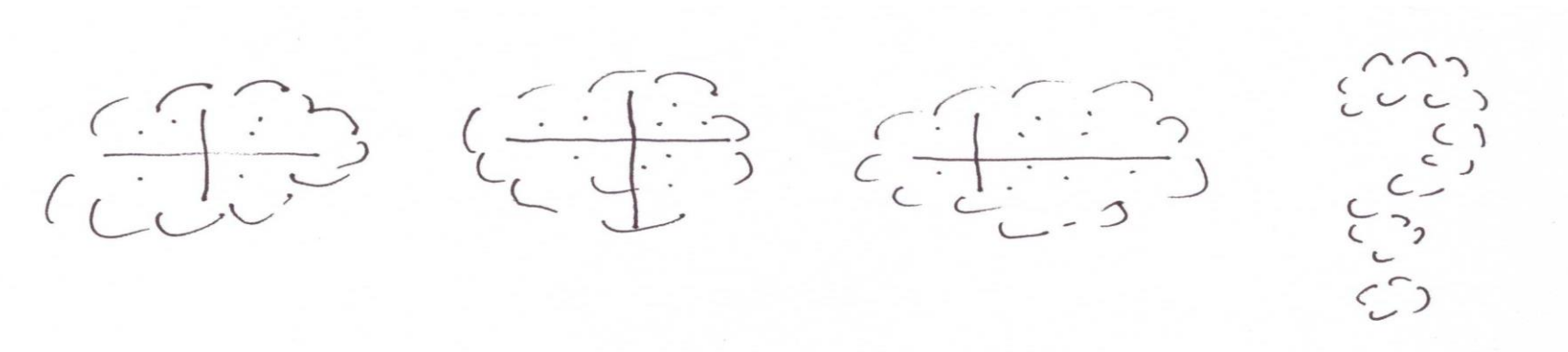
- Flexible labour & financial markets > re-allocation of factors
- Modelling system change via progressive institutional change

Five fundamental institutional sectors

- competition in **product markets**
- the **wage relationship** (*rapport salarial*) and labour market institutions
- **financial intermediation** and corporate governance
- **social insurance**
- **education sector**

Methodology

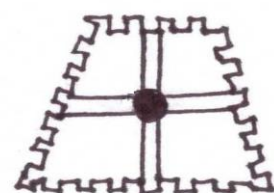
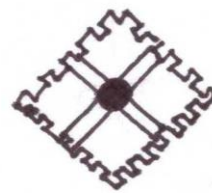
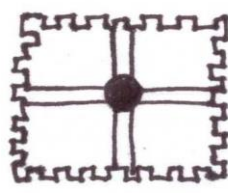
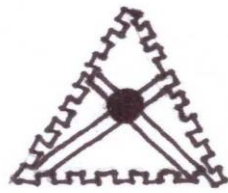
- Several variables for each sector
- principal component analysis to identify groups of countries



- Country groupings in each sector are complex

Five Types of Capitalism

- a **market-based** model
- a **social-democratic** model
- a **Continental European** model
- a **Mediterranean** model
- an **Asian** model



Market-Based Model

- Strong **price** competition in products
- **Low employment protection**
- Strong protection of **shareholders**
- **Limited social insurance**, funded pensions
- **Low public spending** on education

Social-democratic model

- **Quality competition**, state present in markets (coordination)
- **Moderate job protection**, coordination, active employment policies
- Strong **concentration** of ownership
- **High levels** of social insurance
- **High public** spending on education

Asian Capitalism

- Price and quality competition, strong state > coordination & protection
- Job protection large firms, labour market dualism
- Weak protection for outside shareholders, ownership concentration
- Poor social insurance > poverty relief
- Low education spending, in-firm training

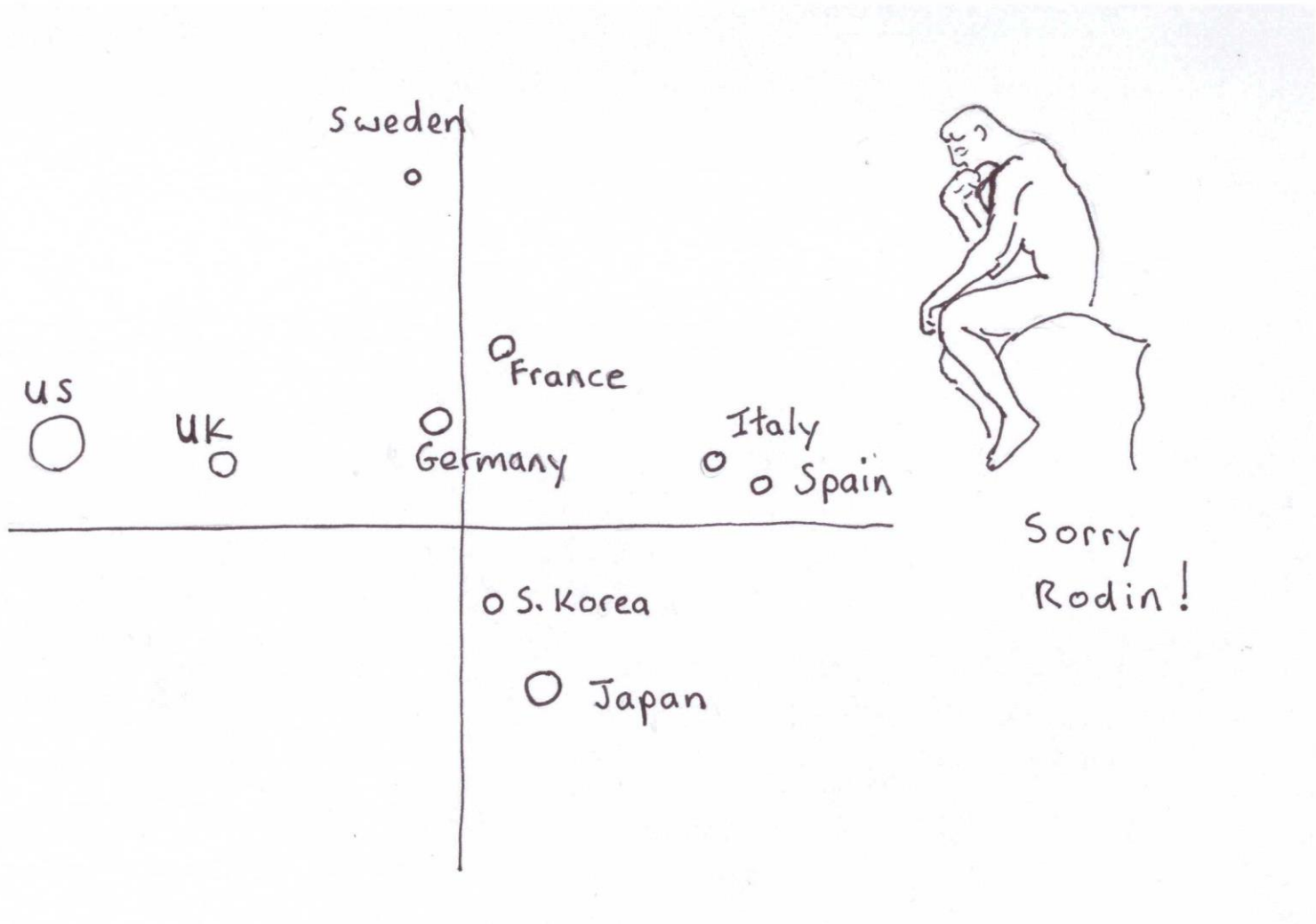
Continental European Capitalism

- Moderate importance of price competition, quality, coordination
- Strong job protection, conflict in industrial relations
- Weak protection for outside shareholders, ownership concentration
- High levels of social insurance, state involvement
- High levels of public spending on education

Mediterranean Capitalism

- More price than quality competition
- Strong job protection in large firms, and labour market dualism
- Weak protection for outside shareholders, ownership concentration, governance bank-based
- Modest social protection, poverty relief
- Low public spending, low educational enrollment

More Complex Identities



Oppositions across Sectors

- **Products:** US/UK > Germany > Gr, I, S. Korea
- **Labour:** “Anglo-Saxon” (AS) countries less regulated
- **Finance:** opposition markets – banks
- **Social insurance:** similar Esping-Andersen (+ sub-groups)
- **Education:** US, UK, Japan less differentiation compared to Germany

- AS vs. Southern European countries

Comparative Capitalisms

Other Types of Capitalism

Beyond the Traditional Literature

Beyond the **Great Moderation**

- **Globalisation & internationalisation** > a global economic system?
- **New types** of capitalism: China, India, Eastern Europe, etc.

Chinese Capitalism

Greatest economic development ever.

More than just Asian capitalism:

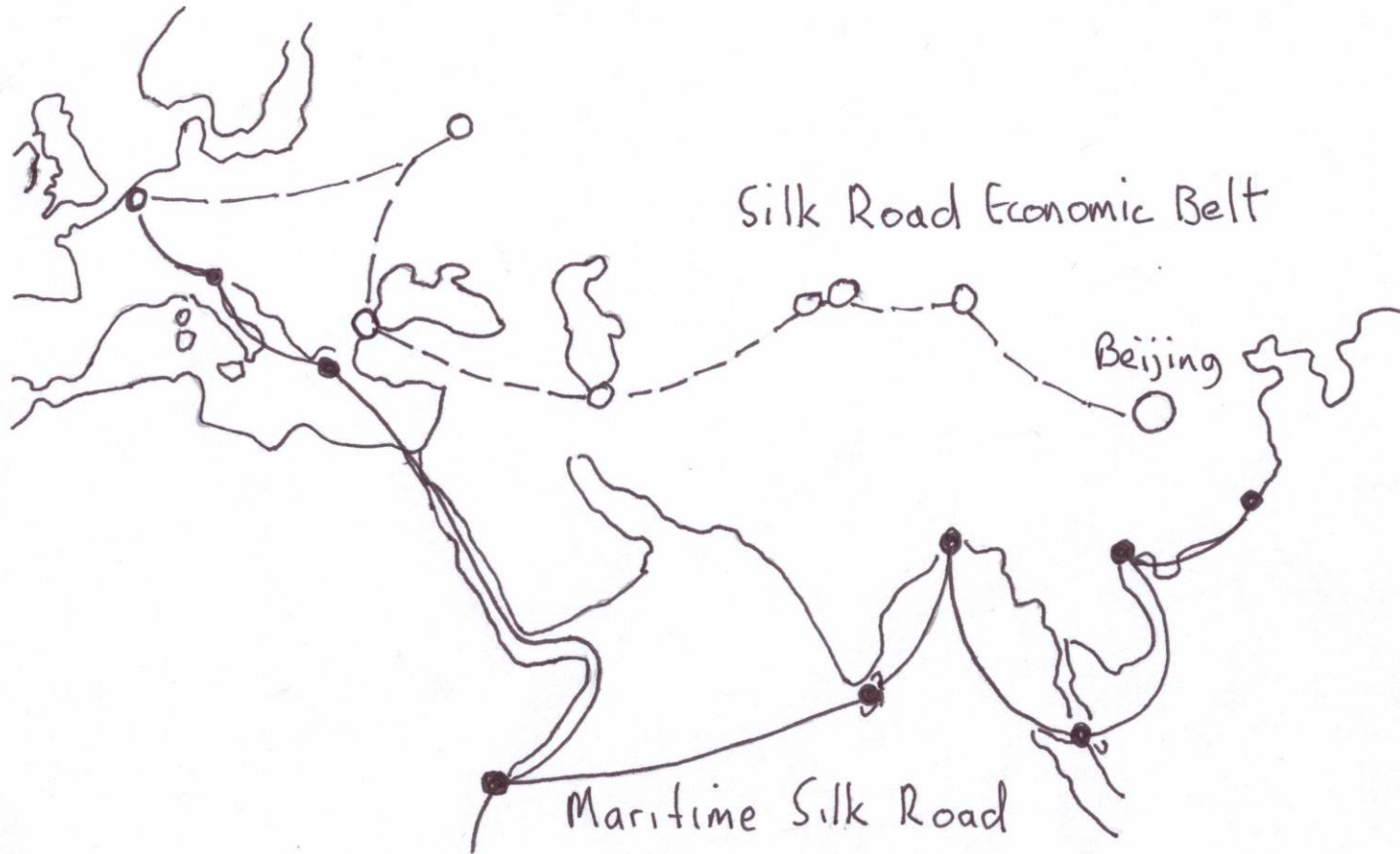
Capitalism with Chinese Characteristics

Socialist Market Economy

- **Planning** - directing (regional) development
- National, regional, local **SOEs** 150,000 > employment, economic control (but big **private sector** too)

New Silk Road

One Belt One Road



Chinese Capitalism?

- No private property of land! (lease and usufructuary rights)
- “Soft budget constraints” (Kornai) – uneconomic loans to SOEs
- Managed exchange rate & exchange controls
- One child policy (1978-2015)
- People’s Republic – one-party state

Indian Capitalism?

Significant reforms since early 1990s.

- Independence 1947 > socialist planning (“Licence Raj”)
- Import substitution industrialisation
- By 1980s slow growth – a few large private conglomerates
- Economic liberalisation 1991: end of Licence Raj, lower tariffs, FDI

Specific Characteristics of Indian Economy

- **Large, young population:** 1.25 billion (2015), growth 1.22%
- World's largest **democracy** - common law
- **English** as a second language (educated and urban population)
- Information technology (**IT**)
- **Business process outsourcing (BPO)**
- Strong expansion of the service sector

Constraints on Development

Strong “dualism”: hi-tech & rural poverty

- Infrastructural **bottlenecks**
- Strong population growth
- Perhaps **cultural constraints** of a traditional society?
- **Place of women** (average age at marriage 22.2)

Eastern Europe: Dependent Capitalism

- **Transition** > Shock therapy > market reforms (vs. Chinese gradualism)
- **FDI** from Western Europe
- **Economic liberalism** promoted by the US, the EU, international institutions
- **Reinforced** since 2007-2008 financial crisis > contrasting results

Other Capitalisms?

Globalisation - markets and private property > global capitalism ?

- Latin America
- Africa – great diversity
- Islamic law & Islamic finance > Islamic capitalism? etc.

Milanovic, B., *Capitalism alone*, Belknap, Harvard University Press, (2019)

- Liberal meritocratic capitalism
UK before 1914 > classical capitalism
- W Europe and US 1945-1980
social-democratic capitalism
- US 21st century: liberal meritocratic capitalism

Milanovic, B., *Capitalism Alone*, Belknap, Harvard University Press, (2019)

[The bourgeoisie] compels all nations, on pain of extinction, to adopt the bourgeois mode of production; it compels them to introduce what it calls civilisation into their midst, i.e., to become bourgeois themselves. In one word, it creates a world after its own image.

Marx and Engels, Chapter 1,
The Communist Manifesto, 1848.

“At the particular time when these discoveries [of the Americas and the East Indies] were made, the superiority of force happened to be so great on the side of the Europeans that they were enabled to commit with impunity every sort of injustice in those remote countries. Hereafter, perhaps, the natives of those countries may grow stronger, or those of Europe may grow weaker, and the inhabitants of all the different quarters of the world may arrive at that equality of courage and force which, by inspiring mutual fear, can alone overawe the injustice of independent nations into some sort of respect for the rights of one another. But nothing seems more likely to establish this equality of force than that mutual communication of knowledge and of all sorts of improvements which an extensive commerce from all countries to all countries naturally, or rather necessarily, carries along with it.”

Adam Smith, Book IV: “On Systems of Political Economy”, *The Wealth of Nations*, 1776.

Milanovic, B., *Capitalism Alone*, Belknap, Harvard University Press, (2019)

TABLE 2.1. Key features of classical, social-democratic, and liberal meritocratic capitalism

<i>Form of capitalism</i>	<i>Classical capitalism</i> UK before 1914	<i>Social-democratic capitalism</i> US, Europe after WWII	<i>Liberal meritocratic capitalism</i> US in early 21st century
Representative economy			
1. Rising share of capital income in net product	Yes	No	Yes
2. High concentration of capital ownership	Yes	Yes	Yes
3. Capital-abundant individuals are rich	Yes	Yes	Yes
4. Capital-income rich are also labor-income rich	No	No	Yes
5. Rich (or potentially rich) marry each other (homogamy)	Yes (to some extent)	No	Yes
6. High correlation of income between parents and children (transmission of advantages)	Yes	Yes, but in some cases weak	Yes

Political Capitalism (China & Vietnam)

- Weber: “the use of political power to achieve economic gains”
- “Communist revolutions in the colonised Third World played the **same functional role that domestic bourgeoisies** did in the West”

Characteristics...

- First: the bureaucracy (primary beneficiary) must achieve high growth
- Second: lack of a binding rule of law
- Third: the state pursues national interest and controls the market

...and contradictions

- First: need for a technocratic and highly skilled elite, operating with selective rule of law
- Second: i) inequality-increasing corruption; ii) for legitimacy > the need to keep inequality in check

TABLE 3.1. Countries that have systems of political capitalism

<i>Country</i>	<i>Political system</i>	<i>Number of years in power (up to 2018)</i>	<i>Average GDP per capita growth rate between 1990 / 1991 and 2016</i>	<i>Corruption ranking in 2016⁴</i>
China ¹	Single party rule since 1949	69	8.5	79
Vietnam ¹	Single party rule since 1945, extended in 1975 to South Vietnam	73	5.3	113
Malaysia	One party in power since 1957 (ended in May 2018)	61	3.7	55
Laos ¹	Single party rule since 1975	43	4.8	123
Singapore	One party in power since 1959	59	3.4	7
Algeria ¹	Single party rule since 1962	56	1.8 ²	108
Tanzania ¹	One party in power since 1962	56	3.5	116
Angola ³	Single party rule since 1975	43	1.1	164
Botswana	One party in power since 1965	53	2.8	35
Ethiopia ¹	Single party rule since 1991	27	4.1	108
Rwanda	Single party rule since 1994	24	2.6 ³	50
<i>World</i>			2.0	88

1. Ruling party is communist or quasi-communist.

2. Calculated after the end of the civil war in 2002.

3. Calculated after the end of the civil war in 1993.

4. Countries are ranked from the least corrupt (number 1) to the most corrupt (number 176).

Note: "Single party rule" means that other parties do not exist or are irrelevant; "one party in power" means that the multiparty system exists but one party always wins elections. *Data source*: GDP data from World Bank World Development Indicators 2017. Corruption ranking from Transparency International, <https://www.transparency.org/>. This corruption index measures "perceived levels of public sector corruption according to experts and businesspeople."