Comparative Capitalisms

I. The Study of Comparative Capitalisms
II. How do Capitalisms Differ?
III. Ideal Types of Capitalism
   a. Liberal Market Economy
   b. Organized (Social) Market Economy
   c. Statist Economy
   d. Oligarchic Economy
IV. Capitalist Performance in a Global Economy
I. The Study of Comparative Capitalisms

- ‘Comparative Capitalisms’ evolved from multiple disciplines with multiple theoretical perspectives

- Three commonalities across literature:
  - (1) National economic systems are characterized by distinct institutional configurations
  - (2) Institutional differences provide comparative institutional advantages
  - (3) Economic systems are noted for institutional path dependency
II. How do Capitalist Economies Differ?

- *Four Key Dimensions of Difference:*
  - A. Organization of Business
  - B. Organization of Labor
  - C. Role of the State
  - D. Economic Culture
A. The Organization of Business

○ Corporate Finance
  ● Equity capital v. bank financed

○ Corporate Governance
  ● Anglo-American shareholder model
  ● German co-determination

○ Inter-Firm Relations
  ● Arm’s-length, contractual
  ● Informal coordination (e.g., Japanese *keiretsu*)

○ Conditions for Entrepreneurialism
B. The Organization of Labor

- Level of Unionization
  - Overall Levels
  - Collective Bargaining Coverage
- Centralization/Coordination of Wage Bargaining
  - “Peak Unions” v. “Craft Unions”
  - Centralized Negotiation
- Workforce Skills
  - Vocational v. General
C. The Role of the State

○ Size of the State Sector
  ● State expenditure as a % of GDP: Sweden = 56% (highest); US = 37% (second lowest...Korea = 30%)

○ Regulation of Product Markets
  ● World Bank’s “Ease of Doing Business” Rankings - Singapore #1; US #3; UK #6; Japan #12; Germany #20; France #31; China #83; India #120

○ Regulation of Labor Markets
  ● Employment Protection Legislation (EPL)
D. Economic Culture

- **Values of Social Partnership and Stability**
  - EX: nearly twice as many Swedes (62%) think that both labor and management should have a say in how a business is run as Americans (34%)

- **Egalitarian v. Individualist values**
  - EX: Correlation between welfare spending and egalitarian values

- **Propensity for Entrepreneurialism**
  - EX: Entrepreneurial activity in US nearly double that in UK
III. Ideal Types of Capitalism

- (A) Liberal Market Economy
- (B) Organized (Social) Market Economy
- (C) Statist Economy
- (D) Oligarchic Economy
A. Liberal Market Economies

- **Business**: Equity finance (pushing focus on to short term profits); managerial autonomy; distant, contractual relations between firms
- **Labor**: contractual and transient industrial relations (downsizing common); relatively weak unions; focus on general, transferable skills
- **State**: smaller overall state spending; minimalist and market-supporting regulatory structure; few EPLs
- **Culture**: individualistic; entrepreneurial

EX: United States, United Kingdom, Ireland, Canada, Australia, New Zealand
B. Coordinated (Social) Market Economies

- **Business:** ‘big business’ dominated; bank financing and patient capital; non-market coordination between firms (insider information); sharing of technological and organizational know-how; limited managerial autonomy
- **Labor:** strong unions, often represented by ‘peak organizations’; centralized and coordinated wage bargaining (wage equalization); workforce stability; emphasis on vocational education
- **State:** large welfare states and high taxes; moderate to high levels of product and labor market regulation
- **Culture:** strong emphasis on social partnership; collective over individual values; weakly inculcated (individual) entrepreneurialism

EX: Germany (Social Market); northern Europe; Scandinavia
B. Statist Economies

- **Business:** big business dominated; bank financing (w/state guidance); often close coordination/ cooperation with state as mediator

- **Labor:** generally weak and decentralized unions

- **State:** (some) direct state control (esp. banks); more ‘administrative guidance’ to private companies; industrial policies to promote particular industries/sectors; producer-oriented policies

- **Culture:** skepticism of (fully) free market/support for state intervention; ‘paternalistic collectivism’

EX: France, Japan, South Korea, China?
D. Oligarchic Economies

- **Business:** dominated by large industries (generally extracting natural resources) industries; undiversified economies; limited industrial base; extensive informal sector
- **Labor:** oppressed; high inequality
- **State:** controlled by/working for oligarchs; corrupt
- **Culture:** elite dominated; ‘zero-sum’ economic culture; low entrepreneurialism

EX: Russia, Latin America, much of Middle East, Africa
IV. Capitalist Performance in the Global Era

Comparative Capitalisms and Economic Performance, 1970-2006

Economic Performance Index

Comparative Capitalisms Index

Correlation = -0.14
Comparative Capitalisms and Economic Performance, 1970-89

Comparative Capitalisms Index

Economic Performance Index

Correlation = 0.003
Comparative Capitalisms and Economic Performance, 1990-2006

Correlation = -0.22