Comparative Disadvantage: Models of Capitalism and Economic Performance in the Global Era

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Introduction

Comparative political economists, particularly those dealing with advanced industrial democracies, have long noted that there are many modes of managing capitalist economies.¹ These ‘varieties of capitalism’ are said to produce institutional complementarities that shape the strategies of their nation’s firms. When cumulated to the national level, these offer comparative institutional advantages that can be exploited in international markets. The most basic formulation of this concept is a dichotomous distinction between coordinated market economies (or CMEs) and liberal market economies (or LMEs) put forth by Peter Hall and David Soskice.² The difficulty is that these models have not been consistently effective in producing favorable economic results. During the 1980s the advice was to mimic the German or Japanese models of political economy as they seemed to be surpassing all challengers. Fortunes reversed in the 1990s as the liberal models of Britain and the United States were now hailed as the exemplars for a more globalized era. Such contrasting results are difficult to explain by reference to the comparative institutional advantages of the models themselves, however.

The argument of this paper is that these variations can be explained by the relative “match” between a particular model of capitalism (and the comparative advantages derived thereby) and the transformation of the structural traits of the global economic system. The specific hypothesis explored here is that increasing globalization, implying a greater reliance on market forces in international exchange, diminishes the returns obtained from the institutional advantages of CMEs, produces rising opportunity costs for more coordinated models of political economy. Increasing globalization of the world economy (assuming a continuation of trend) will therefore likely reduce the comparative economic performance of coordinated market economies and improve the comparative performance of liberal market economies.

The theoretical construction behind this hypothesis has been elaborated in previous papers³ and is reviewed again below. The primary focus here is on establishing whether there is any empirical support for this proposition. This paper is thus not intended as a full-fledged and

conclusive study, but rather an initial test – a plausibility probe, as it were – to determine if a more extensive study is warranted. Given this, only a limited number of countries will be examined: among CMEs, the Netherlands, France and Germany; among LMEs, Ireland, Britain, and the United States. Each was chosen as a representative example of their respective models. Data for these countries will be gathered for 1980-2002. This timeframe is useful in that it straddles the take-off phase of the current round of globalization. Between 1989 and 1991 the world saw the collapse of the Berlin Wall and the final demise of the Soviet Union, opening up huge swathes of Europe and Asia to trade and development, as well as the development of the World Wide Web by Tim Berners-Lee and others, connecting the world in ways (and at a speed) never imagined before. To the extent that the current round of globalization can have a proper starting date, this is it.4

The discussion below first examines the issue of globalization. Rather than fully enter into the fray over the meaning and implications of globalization, just the basic elements and main points of dispute are outlined. Globalization is, for sure, a multifaceted concept yet only economic globalization need be considered to explore the question of this paper. After a basic definition, a series of empirical measures are presented. The data show that globalization increased steadily through the 1980s and then sharply in the 1990s. It should also be noted up front that globalization is treated here as a systemic transformation of the international economy -- a structural change that impacts all states’ comparative economic performance regardless of the political choices that are made.

Secondly, the core concepts of the varieties of capitalism literature are elaborated. While this approach is quite useful in comprehending the connection between national political economies and the global economy, it can be criticized for an inability to effectively gauge transformations in domestic systems and link these to changes in the global economy. The advantages (or disadvantages) of various models remain the same regardless of what is occurring in the world economy. Not only does this disconnect economic outcomes from global transformations, it cannot easily track variations over time in domestic economies. How a country like France, for example, has adjusted to globalization over the last decade is often lost

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4 In reality, most of the elements of globalization, such as the development of the computer, began decades earlier. Yet this is the point where we can say globalization achieved “critical mass”.
in the quest to identifying difference across competing models. Similarly, the determination of what constitutes a CME versus an LME is often based on the subjective interpretation of individual authors. This can produce both a proliferation of categories and contradictions as to what state goes into what category. To avoid such pitfalls, a “model of capitalism scale” is developed below with data from 1980 onward and used to classify these systems.

Lastly, the six states are gauged on their relative economic performance. GDP growth, per capita GDP, unemployment rates, and productivity are included. Taken over the entire period of study, there is no significant difference in the overall performance across these ideal type economies. There are both stronger and weaker economies on both sides of the equation, although the US stands out as a consistent leader. When one breaks things down into the respective decades (1980-90 and 1991-02), a very different pattern emerges. The coordinated economies exhibited superior performance in the 1980s, but dropped off a good deal in the 1990s. Conversely, the more liberally oriented countries saw the reverse pattern. This corresponds with the rapid advance of globalization in the 1990s this lends credence to the connection between globalization, models of capitalism, and economic performance. Many confounding factors, of course, might offer alternative explanations (e.g., Europeanization, asymmetric business cycles), this at least suggests further analysis of this hypothesis.

Globalization

Participating in the discussion over the definition and implications of globalization is a frustrating, even inane, endeavor. We are all discussing the same phenomenon, yet few harmonies rise above the cacophony; diversity and contradiction abound. A basic definition that

5 Of course, this is not true of all comparative political economy analysis. Perhaps the best example of a work that deciphers both continuity and change is Vivien A. Schmidt’s The Futures of European Capitalism (New York: Oxford University Press) 2002.
6 Again, not true for all authors. Of special note is Margarita Estevez-Abe, Torben Iversen, and David Soskice, “Social Protection and the Formation of Skills: A Reinterpretation of the Welfare State,” in Peter Hall and David Soskice (eds.) Varieties of Capitalism: The Institutional Foundation of Comparative Advantage (New York: Oxford University Press) 2001, from which the idea of attempting to quantify different models of capitalism was directly drawn.
7 Some use the basic CME-LME dichotomy while others break the CME category into multiple sub-categories (corporatist, social market, statist, Asian model). To cite the most obvious example, France and Germany are sometimes lumped together and sometime separated.
8 Given the extreme differences we see in the real world, this line of analysis can only really be applied to advanced industrial countries (i.e., OECD nations) and not to middle income or LDCs.
would not, at least, be widely condemned is that “Globalization…denotes the expanding scale, growing magnitude, speeding up and deepening impact of transcontinental flows and patterns of social interaction.” Contention arises around whether these processes create imperatives requiring significant alterations in the behavior of private and public actors. There are two main axes of dispute: whether globalization is an inevitable or contingent process and whether the net results are likely to be positive or negative. (See Table 1)

Those who see globalization as positive and inevitable can be referred to as globalizers. To them globalization represents a structural transformation of the international system that will only expand and deepen. Nations must, therefore, adapt to it (i.e., liberalize) or fall behind. Skeptics, on the other hand, highlight the harms produced by a global economy that is rife with inequities – worsened by the aggressive advance of capitalism -- and committing untold damage to the social, political and environmental fabric of the earth. Nor they would note is it new, having occurred during the belle époque prior to World War I. Globalization is thus hardly inevitable, as it rests on various political commitments to free trade, capital mobility and deregulation. Skeptics thus portray globalization as a contestable construct demanding organized political resistance.

A middling position is taken here. Globalization encompasses a range of economic, social, and cultural changes, all of which serve to break down distance and increase the speed at which these changes occur, as well as altering power relationships and interactions among key state and non-state actors. This constitutes an essential and substantive alteration in the international system. It is not, on the other hand, a transformation sui generis, having antecedents in the early 20th century. Moreover, as that first period of globalization broke down as a result of political disunity, the current era is also subject to political modification. Political contestability has its limits, however. As will be noted below, globalization is partly driven by technological change, especially computers, telecommunications, and the internet. Unless one wants to contest these advances (like Ted Kaczynski or the Taliban), a good part of globalization is here to stay. What follows then is premised on the assumption that the trends of globalization over the last few decades are likely to continue for the foreseeable future.

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10 This discussion based on Held and McGrew, pp 3-8.
11 After all, the ability to produce change is a function of relative power and it is unlikely that the major economies – barring some significant internal or external shock – are likely to withdraw substantially from the international and
That being said, some working definition is needed. While globalization touches on many different areas – political integration, state power, the spread of Western/American culture, the global distribution of wealth, business strategies, environmental degradation, security issues, etc. – the concern here is only with economic globalization. The economic side of globalization encompasses first the *internationalization of economic activity*, represented by large and growing flows of trade and capital between countries, producing increasing economic interdependence.\textsuperscript{12} These are facilitated by *technological changes* in terms of the exponential development of computer processing and information technology. New technology allows corporations to maximize efficiency and profits by adopting *globalized production structures* whereby elements of final products are made in the most economically beneficial locale and brought together in an integrated world production and marketing structure.

To reiterate a point made earlier, these indicators of globalization are treated as representing a structural transformation of the international economy that impacts all states’ economic performance to some extent regardless of what political choices are made. The question is not really how well integrated a country is with the world economy. (*Foreign Policy* magazine and A.T. Kearney have developed a sound index of this.)\textsuperscript{13} Different states can choose different policies to manage their domestic and international position. The point here is not that globalization forces any particular choice (on which, more below), but rather *how it alters the opportunity cost of making those different choices*. In order to understand this we have to look at it as a structural factor.

With that clarification, these ideas are quantified first by looking at two variables that capture the increased flow of economic activity: for trade, the annual percentage increase global exports; for financial flows, the cumulative total of all countries’ foreign exchange. The globalization of production cannot easily be directly measured, but a reasonable proxy may be domestic political settlements that have advanced globalization (EU, NAFTA, WTO, etc.). At the same time it is uncertain whether or not technology will continue to improve at the same rate as it has over the past two decades. My thanks to Kelly Kollman of Carleton College for noting this point.

\textsuperscript{12} This is essentially a function of the process of *global liberalization*, the removal of barriers to economic activity by governments both within their own states and through international agreements. Since one would expect a high degree of covariance between the two, for the sake of simplicity it was decided not to measure both directly.\textsuperscript{13} Their index includes factors of political engagement (i.e., activity in IGOs), technology (i.e., number of Internet users per capita), personal contact (i.e., international travel), and economic integration (i.e., trade, FDI, etc.). In general, LMEs tend to score slightly but not significantly higher than CMEs, although Ireland has been consistently near the top. Alternately, especially for Germany, their numbers are boosted by political factors more than economic integration. See “Measuring Globalization: Who’s Up, Who’s Down?” *Foreign Policy* (January/February 2003), pp. 60-72.
found in the gross flows of foreign direct investment (FDI inflows plus FDI outflows). Of course this leaves one aspect of economic globalization – technology -- unexplored. Lack of data rather than lack of desire is the culprit. Various measures to illustrate the advance of the IT revolution have been widely used, for example, such as the number of Internet users or Internet hosts per thousand. The problem with such data is that it is only reported by country, not globally and it rarely goes back further than 1995. Longer term measures, such as the cost of transatlantic phone call or computing power exist, but frankly I have been unable to attain the raw data for these. In short, I am looking to integrate a technological measure into this study, but I simply have been unable to do so to date.

The results for the specified measures of globalization are presented in Figures 1-3. The growth in world GDP is also included so as to make clear that the increases in trade and investment are not a function of global growth. Global GDP increased by just under 80% from 1980 through 2002. Trade, alternately, tripled while foreign exchange volume increased six-fold and FDI by 2000% up to 1998 before dropping off sharply into 2002. Even still, the FDI index in 2002 still remained 1100% above the 1980 figure. In addition, while trade showed something of a steady rate of increase, both FDI and foreign exchange levels jumped sharply after 1990. Not only is there clear evidence that globalization has advanced, but that it significantly increased pace after 1990. One might add that if technological measures were effectively integrated into this framework, it would likely reinforce rather than dilute the latter point.

Models of Capitalism

15 In my defense the World Bank also examines globalization without a technological measure. See World Bank, “Assessing Globalization”.
16 No doubt part of this was the fallout from the 1997 Asian financial crisis and the beginnings of an economic downturn in the US.
The varieties of capitalism school\textsuperscript{17} examines how particular institutional and regulatory structures embedded at the domestic level serve to shape national economic strategies. Whatever the country, firms must resolve basic coordination problems in order to succeed – managing industrial relations, gaining access to finance, securing a properly trained workforce, dealing with suppliers and clients, etc. How firms resolve these problems and the institutional means employed to do so distinguishes different models of capitalism. The most cited proponents of this approach, Peter Hall and David Soskice,\textsuperscript{18} highlight two ideal-typical models. In liberal market economies, firms coordinate their activities through competitive market arrangements. In coordinated market economies firms rely more on non-market relationships for coordination.

The United States is the prime example of a LME. Corporate finance focuses on the sale of equity shares, requiring managers to be attentive to current corporate earnings. Industrial relations are contractual and transient; managers can craft corporate strategy as they see fit. Education and training emphasize general, hence transferable, skills. Inter-firm networks are discouraged by the regulatory structure (i.e., antitrust). Innovations are treated as proprietary, allowing windfall profits to be reaped from new technologies, and putting a premium on being a “first mover”.

Germany is the epitome of a CME. Firms have access to “patient capital” through major banks or other corporations. Such investments are monitored less through profit reports and more through insider information. Banks hold seats on the boards of directors and companies are linked through dense business networks. This allows the sharing of technological and organizational know-how. Corporate managers rarely have full freedom to shape corporate strategy as the structure of corporate governance and the dominant business ethos demands consensus decision-making, including labor. Industrial relations are governed by industry-wide coordinated bargaining, equalizing wages across skill-levels (generally at a high level),


\textsuperscript{18} Peter A. Hall and David Soskice, “An Introduction to Varieties of Capitalism,” in Hall and Soskice, \textit{Varieties of Capitalism}, pp. 1-70. The discussion that follows is based on this chapter, but this is representative of the broader literature.
encouraging a committed and stable labor force. Training thus pushes industry or firm-specific skills.

These traits produce institutional complementarities. A state’s economic institutions offer certain opportunities for companies. Companies are likely to gravitate toward strategies that conform to the dominant modes of coordination within an economy, be they market or non-market. Cumulatively, this creates certain comparative institutional advantages across these economies. CMEs thus excel in incremental innovations in existing products and processes, the markets for which are often driven more by quality than price (i.e., capital goods, machine tools, consumer durables). LMEs are stronger in radical innovations in fast-moving technology sectors where flexibility is crucial, not only in regards to labor, but also general management and investment decisions.¹⁹

As discussed in the introduction, one of the difficulties of this approach is subjectivity and inconsistency in applying these labels to particular countries. To avoid this difficulty, a "models of capitalism" scale was developed based on four concepts used to distinguish CMEs from LMEs. The OECD’s index of employment protection legislation (or EPL) captures the level of employment protection (i.e., laws restricting individual or collective dismissals). The generosity of a country’s unemployment benefits is gauged by the Fraser Institute’s measure of unemployment compensation, a subset of their annual Economic Freedom of the World index. The nature of the labor bargaining system was also drawn from Fraser’s Economic Freedom of the World index, through the share of the workforce covered by collective bargaining. Each of these variables is likely to have a higher nominal value in CMEs. On the corporate side, stock market capitalization as a percentage of GDP was taken as an indicator of the sources of corporate finance, a higher level of equity finance being an LME trait. The sources and details for all of these variables can be found in the notes for Table 2. (It would have also been beneficial to include some direct or proxy measure for the level of coordination between private economic actors, yet I have been unable to find an appropriate metric for this thus far.) Each of these variables was scored on a scale from 1-100, with higher scores indicating a more liberal oriented economy -- the nominal values for the first three variables being reversed appropriately, of course.

¹⁹ Hall and Soskice use patent data to show that this is not just theoretical speculation; indeed, the pattern of technological innovations for Germany and the US is that predicted by the CME/LME dichotomy. Hall and Soskice, pp. 41-44.
The values of each were averaged over the entire period and these averages brought together in a cumulative score. The results are summarized in Table 2. These matched expectations, to an extent. For most of the individual variables the CME values were much lower than the LME values. If we look at the cumulative results, we see France and Germany clustering on the coordinated side while Britain and the US are nearly identically liberal. On the other hand, Ireland and the Netherlands land in between the two, at 56.1 and 55.6, respectively. This indicates something of a distinct category of “mixed economies” (for lack of a better term) in between the Hall and Soskice ideal types. Progressing to the economic analysis then, these six countries will be categorized as coordinated, mixed, and liberal economies. With a larger data set and a more developed set of variables, the number of groupings may indeed increase. The lesson from this smaller exercise is that it is that there may be great benefit in allowing empirical data to offer some guidance on the proper placement of capitalist economies rather than rather than relying solely on subjective interpretations.  

All of this brings us back to the question of globalization. How do models of capitalism and globalization connect? They do so through the convergence-diversity debate. Globalizers advocate the convergence hypothesis, contending that technological transformation, increased capital mobility, and the spread of neoliberal doctrines have created a unified world in which market forces increasingly dictate social interaction. Continuous innovation is no longer a benefit, but a necessity -- its Schumpeter’s creative destruction on steroids. In short, states will be forced to converge to the neoliberal economic model or, to use Thomas Freidman’s more evocative phrase, they must put on the “golden straightjacket”. States remain sovereign in a literal sense, but given the potential costs of heterodox behavior compared to the potential rewards of being linked into the global market, any rational decision-maker would opt to liberalize policies and open up the economy. The net result will be the convergence of national economies.

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20 It should be made very clear that a quantification of variations in capitalist governance is not intended as a substitute for “thick descriptive” investigations of these countries. It is intended rather as a complement – a small serving of numbers to ready one for the main course of qualitative analysis.

21 Perhaps the quintessential example this is Kenichi Ohmae’s, *The Borderless World* (London: Collins) 1990 and *The End of the Nation State* (New York: Free Press) 1995. Thomas Freidman’s *The Lexus and the Olive Tree: Understanding Globalization* (New York: Anchor Books) 2000 is the perhaps more widely read version of this perspective. In fairness, Friedman more so than others in this camp recognizes the potential pitfalls of globalization.

22 Friedman, Chapter 6. This implies that states must reduce taxation and spending, deregulate the economy, establish price stability via relatively strict monetary policy, implement free trade and capital mobility, limit the number of state-run industries, cut back on industrial policy, etc. While this constrains the range of policy options, it opens up the potential for a steady flow of international investment and higher growth.
economies to the Anglo-American mean. A left-wing interpretation concurs with this view, but more to lament the social disruption and inequality created thereby.

In response, numerous scholars have noted that convergence has failed to materialize and capitalist diversity continues to reign. This perspective contends that the very institutional structures found in European corporatist welfare states (the main focus of interest among these authors) will serve to blunt the pressures to liberalize, or that different economies will find their own unique method of interpreting and adapting to globalization. In short capitalism, even globalized capitalism, does not imply a single, optimal mode of regulation.

The convergence hypothesis does indeed look rather shaky. If globalization forces states to adopt Anglo-American style economies, it seems to be moving at the speed of the tectonic plates. Yet this also highlights a fundamental defect in the diversity proposition. One does not have to think hard to recognize that not all economic models produce favorable results (e.g., North Korea, Cuba). That multiple capitalist paths remain is without question. The issue is whether they all still lead to the same promising end. The difficulty for the varieties of capitalism argument is that it assumes diversity among capitalism’s forms while assuming relative convergence in capitalist performance. State agency in the face of global market pressures is emphasized, but doing serves to disconnect choice from outcome.

The proper question is not whether capitalist diversity will continue as CMEs resist the imperatives of global markets. This is indeed the likely outcome for the time being. The real question is how the intensification and spread of globalization may serve to increase or decrease the relative costs and benefits of varying methods of capitalist organization. The argument here is not that the competitive advantages of coordinated market economies will disappear; they will still likely have a strong position in incremental innovation in established technology. The

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26 This might be congruent if globalization produced more of a division of labor among major economies, with CMEs receiving those operations that benefit from their comparative institutional advantages. I would still maintain,
point is more that increasing global competition and a greater emphasis on rapid innovation and technological change will serve to produce *diminishing institutional returns* for CMEs. To state the point conversely, a globalizing world economy imposes rising opportunity costs for continuing to pursue coordinated strategies as opposed to market oriented policies. One might interpret this as a restatement of the convergence hypothesis, but it most assuredly is not, mainly because it is acknowledged that globalization is filtered through domestic institutions which will alter the national response. After all, institutional complementarities remain that encourage actors to pursue the same strategies long after their relative efficiency has declined. (One need only examine the history of the British economy after World War II to understand this process.) Nor do I posit any predictions regarding domestic policy options. Indeed, this is a failing of both the convergence and diversity models – they each are primarily concerned with government economic policy. Here the concern is the likely economic outcomes produced by different policy preferences. The predicted result is that coordinated market economies (assuming no significant changes in institutions) will experience declining economic performance relative to liberal market economies as globalization increases.

To review the points so far: It has been shown that globalization does represent a substantial change in the global economy. The rate of that change, moreover, increased a great deal after 1990. In addition, quantitative analysis of different economies upheld the veracity of distinguishing between coordinated and liberal market economies, albeit with a middling group tossed in. Finally, our hypothesis suggests that CMEs will experience rising opportunity costs resulting from diminishing institutional returns as globalization advances. The result will be declining relative economic performance versus LMEs. It is now time to see if the economic record supports this theory.

**Economic Performance**

In order to give a fair test to this proposition, economic data was gathered since 1980, thus not only covering more than two decades, but also encompassing multiple business cycles for each state. This should help to dampen confounding cyclical effects. Data was also gathered however, that even under these circumstances they will face diminishing institutional returns. My thanks to Georg Menz of Goldsmiths College, University of London for making me aware of this angle.
for numerous measures related to both economic output and supply side factors. These included GDP growth, per capita GDP, (standardized) unemployment rates, and productivity, specifically GDP per person employed. (Sources of data are in notes of Tables 3-4.) Since these measures have quite different nominal values, all were indexed. The country with the highest value in each year (or lowest in the case of unemployment) was scored as 100 and the other country’s scored proportionately to the leader.\textsuperscript{27} These provide excellent indicators of these economies performance relative to each other. The contention is not that changing global markets will induce any absolute decline in economic performance. Rather it is likely to produce a shift in relative performance. This scoring method is an easily interpretable means of examining relative performance. The average scores for each country from 1980-02 are listed in Table 3.

Comparing these different types of economies across all of these measures, the only variable with a clear winner is GDP growth,\textsuperscript{28} with the liberal economies showing superior performance. Across the other measures (using the average of the two countries in each category for comparison), the results are quite close, but with LMEs coming out slightly ahead on each. The higher average for LMEs, on the other hand, is more indicative of the robust performance of the American economy, which comes out first on each variable except GDP growth. It should be noted that France and Germany were much closer to each other in overall performance, while Britain’s was quite lax compared to the US. Among the mixed states, the Netherlands is strong on per capita GDP and productivity, and has the best record on unemployment. Ireland exceeds all in GDP growth. All told we see a mix of positive and negative values among all models; there is no clear evidence that any model consistently outperforms other.

Moving to the cumulative scores\textsuperscript{29} in Table 4, the averages for the respective models from 1980-2002 provide no significant evidence of the superiority of one economic model over another. Breaking down the data into the two decades under study reveals a contrasting picture, however. France’s and Germany’s economic performance excelled in the 1980s, yet dropped off considerably in the 1990s. For Germany, the drop was substantial, although a good part of this is a result of absorbing the former communist east. Even without that, however, they still would

\textsuperscript{27} Generally this creates values between 1 and 100. Scores can drop into the negative on GDP growth since the nominal values can be negative.

\textsuperscript{28} Ireland was extreme outlier is in terms of GDP growth, a function of their spectacular performance in the 1990s. This dwarfs other economies, even the United States. The second measure included is thus GDP growth excluding Ireland For the cumulative scales the comparative GDP growth measure including all six nations was used for Ireland, while Ireland was excluding from the comparison among the other five countries.

\textsuperscript{29} Averages of the variables listed in Table 3.
have seen a drop of -6.5. Both the mixed and the liberal economies saw the reverse – lesser performance in the 1980s followed by improvement in the 1990s. The gains among the LMEs were relatively modest, however. Even so, the improvement was enough to draw Britain comparatively even with the major continental economies and for the US to further reinforce its economic lead. Mixed economies saw dramatic gains, especially Ireland. Note especially the divergent trajectories of these different models (Table 4, Column 4); all of the liberal and mixed economies were trending upward while all of the coordinated economies were faltering. This point is reinforced by looking at the comparative values for per capita income – a good indicator of how economic performance affects the average person. The relative position of France, Germany, and the Netherlands all dropped, by quite a bit Germany. Ireland’s income growth was monumental, transforming it from a longtime laggard to a pace setting economy. Compared to the US, Britain’s relative performance changed little, but is now approximately even with its European counterparts. This indicates that the coordinated economies had comparatively slower income growth than the liberal economies. In short, in the latter half of the period under study the economic trajectories of LMEs were heading in a positive direction while those of CMEs had comparatively worsened. As this corresponds with the increasing rate of globalization, and the spread of market coordination at the international level, this indicates that CMEs did experience declining relative performance in a more globalized era. In fairness, the most that can be claimed from this analysis is simple correlation (which, as we all know, does not equal causation), but it does provide preliminary evidence to support this paper’s hypothesis.

Conclusion

The theoretical argument made in this paper is that the trends encompassed in the collection of changes in the international economy that we call globalization (which implies a greater level of coordination via market forces in international transactions) serve to favor the comparative institutional advantages of liberal market economies and boost their economic performance. The hypothesis derived from this is that coordinated market economies, by pursuing modes of organization counter to global trends, will see diminishing marginal returns.

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30 The large German decline is partially attributable to absorbing the east, yet even looking as only West German figures, which go up to 1997, still saw a drop to 81.4.
for their particular institutional advantages leading to rising opportunity costs and declining comparative economic performance. These ideas were given support through the empirical analysis above. Globalization was shown to be rising throughout the period of the study and truly achieving a take-of stage in the early 1990s. A models of capitalism index established that there are true, distinct, and consistent differences in the organization of coordinated and liberal economies, although some countries fall into a mixed category. Finally, weighing various economic measures for both types of systems showed that CMEs performed much better in the 1980s, while LMEs and mixed economies saw an increase in performance in the 1990s. As this corresponds with the trends seen in the global economy, this lends credence to the research hypothesis.

One anomaly that does not fit neatly with the research hypothesis is the much greater gains made by mixed economies in the 1990s. This can be interpreted in one of two ways. First, that there may be some sort of optimal institutional hybrid between the coordinated and liberal models that maximizes the advantages and minimizes the disadvantages of each. Alternately, the difference may be explained by the greater rewards to be reaped the early stages after shifting from a more coordinated to a more liberal system. I would defer judgment on either of these propositions pending further study.

Again, this study constitutes a preliminary empirical test of the supposition that there are distinct connections between modes of capitalist economic management and changes in the world economy that alter economic performance. Only tentative conclusions can be drawn from the above, but I contend that the results are sufficient to warrant more detailed examination. In constructing a more conclusive study, the issue must be examined with a larger sample of countries; with better developed empirical indices; measured for a longer period of time: and using more advanced statistical testing. My ideal study, assuming sufficient data availability, would be to examine all OECD countries going back to 1950.

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31 As formulated, for example, the models of capitalism scale is too heavily weighted toward traits of labor and not enough to corporate organization and governance or state coordinative activity.
TABLES:

Table 1: Primary Interpretations of Globalization

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<th>Positive Results</th>
<th>Negative Results</th>
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<td>Globalization as an external constraint on state action</td>
<td>Globalization as a threat to state autonomy</td>
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<tr>
<td>Process</td>
<td></td>
<td></td>
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<td><strong>Representative</strong></td>
<td>Thomas Freidman, <em>The Lexus</em> and the Olive Tree*; Daniel</td>
<td>William Grieder, <em>One World, Ready or Not</em>; Anthony Giddens,</td>
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<td><em>Runaway World</em></td>
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<td><strong>Contingent</strong></td>
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<td>Globalization as a political project to be resisted and/or reversed</td>
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<td>Process</td>
<td>defended</td>
<td></td>
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<td><strong>Representative</strong></td>
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<td>John Grey, <em>False Dawn</em>; Paul Hirst and Grahame Thompson,</td>
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<td>Perfect</td>
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Table 2: Cumulative "Models of Capitalism" Scores

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<tr>
<th></th>
<th>Employment Protection</th>
<th>Unemployment Protection</th>
<th>Collective Bargaining</th>
<th>Stock Market Capitalization as % GDP</th>
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<tr>
<td>Netherlands</td>
<td>60.0</td>
<td>36.2</td>
<td>45.2</td>
<td>81.1</td>
<td>55.6</td>
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<td>79.2</td>
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Raw data converted to a 100 point scale where higher score implies more liberal economy.
Column 2: Fraser Institute, Economic Freedom of the World: 2003 Annual Report. Criterion for success is that unemployment compensation does not undermine the incentive to work. A high score indicates less generous benefits.
Column 4: World Federation of Exchanges, OECD. Market capitalization (main and parallel markets) of domestic companies as a percentage of GDP.
Table 3: Relative Performance Scores on Economic Variables, 1980-02

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Raw data converted to a 100-point scale with highest value equaling 100 and all other countries scaled appropriately below 100.
* Ireland was an extreme outlier on this measure, so the relative values of the other states were calculated relative to each other without the Irish data.
** For per capita GDP and productivity, West Germany only through 1997; all Germany thereafter.

Column 1-4: IMF, World Economic Outlook Database, Sept. 2003
### Table 4: Economic Performance Index Scores (Cumulative Averages)

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Raw data converted to a 100-point scale with highest value equaling 100 and all other countries scaled appropriately below 100.

* For per capita GDP and productivity, West Germany only through 1997; all Germany thereafter.

Column 1-4: IMF, World Economic Outlook Database, Sept. 2003

### Table 5: Relative Changes in per capita GDP, 1980 to 2002 (Constant Dollars)

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</tbody>
</table>

NOTE: If use West German data only through 1997 the figure still drops to 81.4.

* The US remained stable as they had the highest per capita income for every year of the study.
Figures:

**Figure 1: Growth in World Trade and World GDP**

![Graph showing the growth in world trade and world GDP from 1980 to 2000.](image)

*Source: WTO*

**Figure 2: Growth of World Foreign Exchange and World GDP, 1980-02**

![Graph showing the growth of world foreign exchange and world GDP from 1980 to 2002.](image)

*Source: IMF, International Financial Statistics*
Figure 3: World Gross FDI and World GDP Growth, 1980-2002

Source: UNCTAD, FDI Database