

1 Varieties of Capitalism (VoCs), Hall & Soskice (2001)

- Accept methodological individualism (*rationality etc*)
 - ✓ The firm as the core actor in capitalist economies
- Accept our (North's) definition of institution
 - ✓ Institutions are (*humanly devised methods to solve coordination failures*)
- Acknowledge that markets themselves are institutions
 - ✓ Markets are one possible way to coordinate individuals' behavior
- Highlight the existence of institutional complementarities
 - ✓ (self-reinforcing) Interplay between different formal institutions (and informal institutions as well)

1.1 Background: Main areas of action of the firm

Firms have to cope with 5 main problems:

1. Industrial relations
 - Wage moderation
2. Education and training (*workers*)
3. Corporate governance (*investment*)
 - Management of, and access to, sources of long-term financing and areas of investment
4. External relations (clients and suppliers)
 - Interact with customers and providers
5. Internal relations
 - Cooperation among managers and employees

2 Two Ideal Types of Capitalism

LMEs are centered around Hierarchies and Market Relations, LMEs have a deeper focus on cooperation and non market institutions. Generally, in CMEs the role played by the market is limited relative to other actors/institutions (State, Third Sector, Social bodies, various forms of solidarity). In deep:

2.1 Coordinated Market Economies (CMEs, e.g. Germany)

- **Industrial relations:** Negotiation at the industry/sector level
 - ✓ Large engagement of social bodies
 - ✓ Labor protection
- **Education and training:** Firm-specific competences (*vocational*)
 - ✓ Social partners' oversight
- **Corporate governance:** Financing mainly from banks (*long run*)
 - ✓ Network and reputation building wrt banks
 - ✓ Low responsiveness in the short term
- **External relations:** Cooperation ✓ Standard setting, coordination, tech trasfer
- **Internal relations:** Consensual decisions
 - ✓ Social partners' involvement

2.2 Liberal Market Economies (LMEs, e.g. US)

- **Industrial relations:** Individual negotiation
 - ✓ Layoff relatively easy
 - ✓ Flexible wage setting, deregulated labor market
- **Education and training:** General competences (*higher mobility*)
- **Corporate governance:** Financing from the market
 - ✓ Relevance of public information
 - ✓ Dependence on short-term profitability
- **External relations:** Competition
- **Internal relations:** Hierarchical decision-making

2.3 A very complex ecological system:

- Institutional complementarities **amplify the divergence** between LMEs and CMEs.
 - **Education & Training and EPL:** i decide to learn very specific competences, i have low bargaining power (i have no outside options) → i want union level bargaining + regulation
- **Informal institutions and history** matter: trust, norms, and past arrangements shape how formal institutions work.
→ Multiple equilibria

2.4 Issues with Varieties of Capitalism (VoCs)

- **Definition is channgenging given the Complexity of (numerous) relations**
 - Models' definition
 - Relevant institutions
 - Interplay among institutions
- **Difficulty in establishing causal relations**
 - Endogeneity is central to the conceptual model, what is creating what
- **Unclear identification of the varieties of capitalism**
 - Distinction between LME and CME
 - Role of alternative models, Inclusion of non-market economies?

2.4.1 Work by Hall (2013)

TYPE OF CAPITALISM (circa 2006)	CHARACTER	CAPACITY TO PROVIDE WORK (% adults employed)	LEVEL OF INEQUALITY (Gini index)
Nordic Coordinated Economy	Strategic Crdtn in Lab/Cap Mkts, Soc Dem WS: Sw, Nor, Dk, Fin	HIGH 74	LOW 25
Liberal Market Economy	Fluid Cap/Lab Markets, Lib WS: UK, US, Ire, NZ, Can, Aul	HIGH 71	HIGH 33
Continental Coordinated Economy	Strategic Crdtn in Lab/Cap Mkts, Cont WS: Ger, Neth, Aus, Belg	MODERATE 68	LOW 26
Mediterranean Market Economy	Strat Cdtin in Cap Mkts, less in Lab Mkts, Med WS: Fr, It, Port, Spn	LOW 62	HIGH 32

2.5 Conclusion

1. No model is preferable (*Contrary to “the Consensus” that states the superiority of the LME model*).
 - Impossible to apply “one-size-fits-all strategies”, on top of usual difficulties with institutional transplants
 - No (need of) institutional convergence
2. The policymaker has to drive economic agents to cooperate in an effective way
 - Various options (among which LME and CME). There are many Varieties and Varietals of capitalism (Palley, 2023)¹
 - Alternatives **do exist**, and politicians should consciously choose among them.
 - Large socio-economic consequences of different models
 - CMEs possibly better at producing incremental innovation, whereas LMEs are better at radical innovation
 - Consequences on inequality (more inequality in LMEs)

→ 1&2 Against the **TINA** doctrine (“There Is No Alternative”) promoted by mainstream economics and the Washington Consensus:

- 1) There is not an optimal model, 2) There is room for institutional and policy choice

¹Varieties = general types (e.g. LME, CME), like *dog breeds*.

Varietals = specific national models (e.g. Norway, Japan, Germany), like *labrador, pitbull, etc.*