

# 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 transfer
- **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 challenging 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 (% adlts 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 Cdt 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)<sup>1</sup>
- 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

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<sup>1</sup>**Varieties** = general types (e.g. LME, CME), like *dog breeds*.  
**Varietals** = specific national models (e.g. Norway, Japan, Germany), like *labrador, pitbull, etc.*