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Dimitra Tsigkou

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From Varieties of Capitalism to European Growth Models: towards a critical synthesis

Dimitra Tsigkou, *Junior Research Fellow, A.G. Leventis Foundation Research Chair Fellow, Hellenic Foundation for European and Foreign Policy (ELIAMEP)*

Abstract

The widespread belief that globalization would lead to the gradual convergence of advanced capitalist economies was challenged by the emergence of the Comparative Capitalism (CC) literature. Arguably the most influential approach within CC is the Varieties of Capitalism (VoC) model which argues that differences among advanced capitalist economies not only do not fade away but may be amplified due to the disparate comparative institutional advantages that various socioeconomic models may hold. VoC, nonetheless, was soon criticized -among others- for its binary ontological framework and heuristic shortcomings by the second generation CC. Contemporary writings within the third generation CC suggest a radical break from VoC as the focus should be, it is argued, on the demand, rather than the supply, side of the economy. This article posits that while the third generation CC has shifted attention to other institutional and policy fields, emphasizing essentially macroeconomic issues vis-à-vis economic policy reform, an epistemological rapprochement between the two main strands of CC could offer a more contextualized understanding of the different proposals put forward by the member states regarding the on-going Eurozone reform effort.

KEY-WORDS: Comparative Capitalism (CC); Varieties of Capitalism (VoC); Growth Models; Eurozone Reform.

Από τα Μοντέλα Καπιταλισμού στα Ευρωπαϊκά Μοντέλα Ανάπτυξης: Προς μια κριτική σύνθεση

Δήμητρα Τσίγκου, *Υπότροφος Βοηθός ερευνήτρια, Ερευνητική Έδρα Ιδρύματος Α.Γ. Λεβέντη, Ελληνικό Ίδρυμα Ευρωπαϊκής και Εξωτερικής Πολιτικής (ΕΛΙΑΜΕΠ)*

Περίληψη

Η ευρέως διαδεδομένη πεποίθηση ότι η παγκοσμιοποίηση θα οδηγούσε στη σταδιακή σύγκλιση των ανεπτυγμένων καπιταλιστικών οικονομιών αμφισβητήθηκε με την ανάδειξη της βιβλιογραφίας του Συγκριτικού Καπιταλισμού. Αναμφίβολα, η θεωρία των Μοντέλων Καπιταλισμού αποτελεί την πιο σημαντική προσέγγιση στο

πλαίσιο του Συγκριτικού Καπιταλισμού. Σύμφωνα με την εν λόγω Θεωρία, οι όποιες διαφορές παρατηρούνται μεταξύ των προηγμένων καπιταλιστικών οικονομιών, όχι μόνο δεν απαλείφονται, αλλά, αντιθέτως, ενδέχεται να ενισχυθούν ως αποτέλεσμα των διαφορετικών συγκριτικών θεσμικών πλεονεκτημάτων που διατηρούν τα εκάστοτε κοινωνικοοικονομικά μοντέλα. Ωστόσο, σε αυτήν τη βάση, σύντομα αναδύθηκε μία δεύτερη γενιά Συγκριτικού Καπιταλισμού, η οποία επέκρινε τη Θεωρία των Μοντέλων Καπιταλισμού -μεταξύ άλλων- για το δυαδικό οντολογικό της πλαίσιο, καθώς και για τις διάφορες εμπειρικές της ελλείψεις. Κατά την παρούσα χρονική περίοδο, έχει αναπτυχθεί μία τρίτη γενιά Συγκριτικού Καπιταλισμού, η οποία διαφοροποιείται ριζικά από τη θεωρία των Μοντέλων Καπιταλισμού, επικεντρώνοντας τις αναλύσεις της στην πλευρά της ζήτησης αντί της προσφοράς. Το παρόν άρθρο υποστηρίζει ότι, ενώ η τρίτη γενιά Συγκριτικού Καπιταλισμού έχει μετατοπίσει την προσοχή της σε άλλους θεσμικούς τομείς και πεδία πολιτικής, δίνοντας έμφαση κυρίως σε μακροοικονομικά ζητήματα, ιδίως σε ό,τι αφορά τη μεταρρύθμιση της οικονομικής πολιτικής, ένας επιστημολογικός συγκερασμός μεταξύ των δύο κυρίαρχων προσεγγίσεων του Συγκριτικού Καπιταλισμού θα μπορούσε να συμβάλλει στην καλύτερη κατανόηση των διαφορετικών προτάσεων που προωθούν τα κράτη-μέλη αναφορικά με την επικείμενη μεταρρύθμιση της Ευρωζώνης.

ΛΕΞΕΙΣ-ΚΛΕΙΔΙΑ: Συγκριτικός Καπιταλισμός, Μοντέλα Καπιταλισμού, Μοντέλα ανάπτυξης, Μεταρρύθμιση της Ευρωζώνης.

1. The VoC approach: a brief description

Post-WWII political economy literature has been largely couched on two major premises. Firstly, that advanced capitalist economies would gradually converge in terms of their institutional make-up in order to successfully compete one another in a global economy. Secondly, within this environment, the economic development models which gave primacy to structural coordination and social values [such as the ones encountered in continental Europe and South-East Asia] would eventually wield to deregulating neo-liberal political-economic models (see, for instance, Eichengreen, 2007; Friedman, 2000; Phelps, 2006; Polanyi, 1944). The emergence of Comparative Capitalism (CC) scholarship, however, challenged this idea by suggesting that varying models of capitalism can not only co-exist but even manifest stark differences. Amidst some earlier and parallel developments in this subfield of political economy (Jackson and Deeg, 2006: 7-11, 21-30), the ‘varieties of capitalism’ (VoC) approach as formulated by Hall and Soskice (2001) clearly is widely accepted as the focal point of the first CC generation. Despite the criticisms that have been eventually raised towards VoC, and more recently

specifically regarding its potential to explain the Eurozone crisis - as we will see later in this article - this perspective is still influential primarily because of its canonical formulation of many core concepts Nölke (2016: 145).

In their VoC approach, Hall and Soskice (2001) not only challenged the argument that globalization leads to the systemic convergence of advanced capitalist economies but suggested that it eventually leads to an amplification of their differences. This happens, according to the VoC perspective, because different socio-economic models hold disparate comparative institutional advantages (Hancké, 2009: 1). In terms of its meta-theoretical premises, VoC has been influenced on the one hand by the developments in the economics of industrial organization (Williamson, 1985; Milgrom and Roberts, 1992), and on the other hand, it has fruitfully synthesized the principles of microeconomics and rational choice institutionalism. Following an actor-centered approach, VoC tries to assess how interactions among interest-seeking agents [primarily, industrial firms] shape the economic and political environment of action (Scharpf, 1997). National political economies, Hall and Soskice argue, should be compared according to the ways that industrial firms resolve potential coordination problems along five areas, as the latter have a direct impact on a country's economic performance. More precisely, this fivefold matrix of comparison includes: *industrial relations* (as bargaining over wages and conditions eventually influence the rates of unemployment and/or inflation), *vocational training and education* (the balance- or lack of- between firm investment in workforce training and workers' decision to invest in their skills affect the competitiveness of the overall economy), *corporate governance* (showing how firms' profitability is contingent on the availability of funds to finance particular projects), *inter-firm relations* (reflecting the balance required between suppliers, clients, and access to technology), and *coordination problems with their own employees* (any potential coordination problems which result in employees being unwilling to advance the objectives of the firm can have an impact on the economy's production model) (Hall and Soskice, 2001: 7).

Drawing from this typology, the advocates of VoC models argue that two dominant ideal-types of National Political Economies (NPE) can be discerned; Liberal Market Economies (LME) and Coordinated Market Economies (CME). In LMEs, firms coordinate their activities primarily via hierarchies and competitive market arrangements while in CMEs, firms depend more heavily on non-market relationships to coordinate their endeavors (Hall and Soskice, 2001: 8). These two types of economies are considered resilient due to the emergence of institutional complementarities that result in different comparative advantages in areas like innovation systems, industrial structures, international competitiveness, political regimes, social policies, and reactions to globalization. In LMEs, the equilibrium

outcomes of firm behavior are usually given by demand and supply conditions in competitive markets. On the other hand, the equilibria on which firms coordinate in CMEs are more often the result of strategic interaction among firms and other actors (Hall and Soskice, 2001: 8). Being aware, nonetheless, that all economies cannot fit within the binary distinction, Hall & Soskice also alluded to an intermediate type of capitalism, the so-called “Mediterranean.” This hybrid type of capitalism (referred to in Hall’s and Gingerich’s (2004; 2009) work as Mixed Market Economies) is characterized by frequent state interventionism, a large agrarian sector, liberal arrangements in the sphere of labor relations but with certain capacities for non-market coordination in the sphere of corporate finance. Italy, Spain, Greece, Portugal, but France as well constitute some such examples. Regardless, traditional VoC research assumes that economies that are very close to the CME and LME ideal types are more successful than hybrid cases (Nölke, 2019: 6).

2. The path towards European Growth Models

Despite VoC’s epistemological breakthrough, its ideal-typical binary distinction was, among others (Hancké et al., 2007), fiercely criticized for being reductive, overly functionalist and unable to account for institutional changes stemming from globalization and neoliberal policies (see, for example, Crouch, 2005; Schmidt, 2002; Thelen, 2014), for the neglect of the role of the state (e.g. Leibfried and Zürn, 2005; Schmidt, 2009) and of the of capitalist systems in transitional Eastern and Central European economies (Bohle and Greskovits, 2012), as well as for the controversial labelling of ‘mixed market economies’ (MMEs) in Southern Europe (Molina and Rhodes, 2007).

The *second generation* of CC (Hancké et al., 2007; Schmidt, 2002; Amable, 2003; Thelen, 2014) attempted to address these deficiencies by shifting focus to the significance of history and politics in the emergence of capitalist institutions, and the subsequent role of the state in coordinating unfolding capitalist activities. Post-VoC literature, which largely rests on the premises of historical and sociological institutionalism, retains the principles of institutional complementarities and coherent models but argues that a plurality of efficient NPE models may co-exist. This second-generation CC research has developed important insights into Southern European capitalism, and has also focused on the transformative forces of liberalization and financialization which help explain the Eurozone crisis. Nonetheless, one of its often-cited shortcomings is the neglect of the demand-side institutions and the interaction of national capitalisms, particularly within the context of the Economic and Monetary Union (EMU) (Bruff et al., 2015; Nölke, 2016).

The *third generation* of CC scholarship, often identified as “Critical Comparative Capitalism” (CCC) studies, emerged as a response to the crisis and incorporated the study of European Monetary Integration and the creation of the EMU within growth models which focused on the demand side of the economy. While this generation of CC is more heterogeneous than the previous two, its various manifestations share an obvious interest in power imbalances, income inequalities, sources of tension within the EMU in particular, and the corresponding problematic interdependencies among national VoCs (e.g. Beramendi et al., 2015; Hall, 2012; Hall, 2014; Höpner and Lutter, 2017; Streeck, 2014). The most significant contribution of CCC, nonetheless, has been the emphasis placed on the demand-side of the economy and institutions such as collective bargaining and unemployment insurance, leading some scholars to avoid using the terms CMEs and LMEs, but to speak of export-led or profit-led growth regimes as opposed to the demand-led or wage-led growth regimes (Beramendi et al., 2015; Johnston and Regan, 2016; Johnston and Regan, 2018; Iversen and Soskice, 2012; Iversen et al., 2016).

One of the most influential studies in the third generation of CC is the study of (Baccaro and Pontusson, 2016) which offers an alternative analytical framework to the VoC approach by stressing the relative importance of the different components of aggregate demand -consumption, investment, government spending, and net exports- as drivers of economic growth. In contrast to Hall’s and Soskice’s VoC approach, Baccaro and Pontusson, who borrow from Post-Keynesian economics in the tradition of Michal Kalecki, argue that there exist numerous export-led and consumption-led “growth models” which exhibit substantial quantitative and qualitative differences; namely, growth models may take multitude forms as compared to the binary distinction of VoC, and, secondly, the former are much more unstable than the latter. What sets this article apart from other CPE literature is its aim to explain both cross-state differences and trajectories of change in advanced capitalist economies. One of the paper’s main findings is that two CMEs, in VoC terms, like Germany and Sweden, have adopted different regimes and growth trajectories as despite their equally strong export performance, Sweden was the only one to combine that with robust growth in household consumption. Therefore, the argument goes, growth regimes cut across VoC typology and offer an alternative approach with emphasis on demand and distributional conflicts (Behringer and van Treeck, 2017; Nölke, 2016).

In response to Baccaro and Pontusson’s claim of providing an alternative to VoC, Hope and Sockice (2016) argue that the growth model approach is, in essence, congruent with their VoC approach and that the export-led and consumption-led growth regimes correspond with their classification of CME’s and LME’s

respectively. In a similar vein, Hall argues that economies with different varieties of capitalism, in their attempt to secure economic growth, are inclined to run different growth models as well, determined by the ways that the organization of the political economy encourages the production of specific types of goods and restricts or expands the number of instruments available for managing the economy (2018: 9). What is more, Hope and Sockice (2016) reject the claim by Baccaro and Pontusson that post-Fordist regimes (Sweden and Germany) are on different growth trajectories by rejecting their empirical claim that German exports have become more price-sensitive over time due to wage suppression as compared to Sweden. Another line of criticism has been that in their “growth models”, the authors confound the institutional foundations of the industrial relations with their potential outcomes (Stockhammer and Mohib, 2018).

3. Discussion

While traditional VoC Research and CCC models are often considered to be competing approaches, it appears that they should be better conceptualized as complementary perspectives. This is so because firstly, they focus on different institutional aspects of contemporary economies (with the former focusing on extreme institutional equilibria and the latter on growth dynamics, which can be led both by domestic consumption and exports). Secondly, they do not necessarily follow the same categorization among advanced economies. Therefore, as part of the ongoing discussions on the economic governance of the Eurozone and the necessary economic policy reforms, I would argue that epistemological bridge-building between the two perspectives can significantly expand our horizon of understanding the current conjuncture. Instead of construing the two approaches as mutually exclusive alternatives, for instance, further research may focus on a fruitful rapprochement between the supply side issues on the company level of VoC and the demand side emphasis of growth models. This will enable us to appreciate, on the one hand, the way that institutional asymmetries of different varieties of capitalism led the member states to adopt divergent growth strategies while participating in the same monetary union; on the other hand, we will be able to decode the proposals that different member states put forward as regards the on-going Eurozone reform effort in light of their attempt to preserve their comparative institutional advantage.

As such, the viability of different economic models should be appreciated within a broader network of interactions instead of being treated as if they exist in isolation. Eurozone rescue policies, therefore, I would like to argue, need to accommodate the co-existence of different growth models instead of aiming for

the prevalence of a single ideal-typical one like, for instance, the German export-driven. A case in point is the eventual self-defeating policy devised for economies of the South which conditioned their bailout on the unequivocal implementation of radical structural reforms and adoption of harsh fiscal austerity measures. It is worth noting here that, as Chang et al. (2020) show, despite the policy constraints imposed on program countries -which led, among others, to high unemployment rates, rising poverty levels and large investment gaps- these member states still retained their national growth models, demonstrating how deeply embedded such models are in the economic, political, and even cultural fields of each member state. By abandoning a quasi-evolutionistic perception of growth models, where the state has to supposedly follow a single path towards development and prosperity, a multitude of viable alternatives opens up for member states to follow which, nonetheless, need to be mindful of the broader framework as defined by the Treaty as well as the Stability and Growth Pact. In this sense, the motto of the EU 'unity in diversity' is no longer construed as an empty gesture but becomes a guiding light for creative and inclusive policy making.

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