Varieties of capitalism in the post-2007 crisis: A story of exit, specialization, and institutional complementarity

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The economic crisis since 2007 has affected high-income countries differently, and in partly surprising ways. In Europe, for example, southern economies have been hit more severely than northern economies. And Ireland, long-celebrated as a Celtic tiger, has suffered a deep labor market crisis, whereas Germany, whose institutionalized, coordinated type of economy has been considered outdated in the 1990s, has largely resisted recession and unemployment. In this presentation, it will be argued that differences between affluent economies in terms of economic performance in the post-2007 crisis can be understood with reference to the varieties of capitalism (VoC) approach suggested by Hall, & Soskice (2001) and extended, among others, by Hall, & Thelen (2009).

The VoC approach has contradicted a commonly held prediction during the 1990s according to which more institutionalized economies such as Japan, Sweden, or Germany will be forced by pressures of globalization to adjust their institutions toward a shareholder economy in terms of labor market institutions, trade union representation, corporate governance, and finance. The VoC approach argued, instead, that such a liberalization of more coordinated market economies is far from inevitable. The second half of the 20th century has given rise to two distinct but equally successful types of capitalism, liberal market economies (LMEs) such as the USA and coordinated market economies (CMEs) such as Germany. These differ markedly in terms of their institutional logic but, since both are based on a consistent configuration of complementary institutions in labor market, finance, business relations, and education and training, both types of capitalism will offer favorable conditions to indigenous companies engaged in sophisticated manufacturing. A difference that will result are sector specific comparative advantages – LMEs will specialize in high tech industries, and CMEs will specialize in medium high tech industries.

This approach can help understand the relative performance of different economies in the post-2007 crisis. Based on our prior analyses with data for 26 OECD countries in the 1990 to 2005 period (Schneider, Schulze-Bentrop, & Paunescu 2010; Schneider, & Paunescu 2012), three specific points will be illustrated.

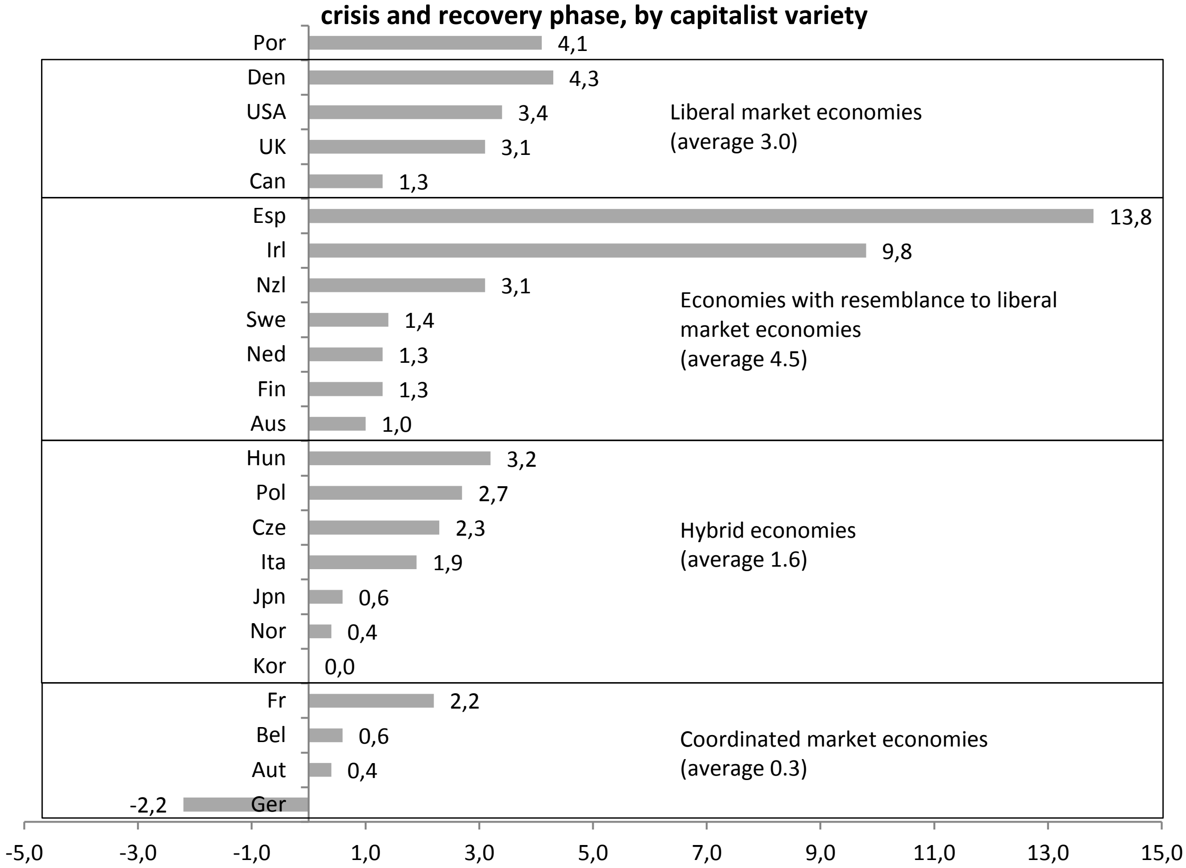
First, the relative success of CMEs, and in particular Germany, in the post-2007 crisis is partly the result of their specialization in medium high tech exports. As was shown by Schneider, & Paunescu (2012), belonging to the LME cluster was associated with a comparative advantage in the high tech sector, and, likewise, belonging to the CME cluster was associated with a comparative advantage in the medium high tech sector in the period 1990 to 2005. Hence, if medium high tech industries been more stable in terms of global demand than high tech industries, CMEs such as Germany will suffer less unemployment, other things being equal, than LMEs. Furthermore, it was also shown empirically that economies that changed their institutional setup in the 1990 to 2005 period toward the LME ideal type also specialized strongly into the high tech sector in the same period. As this implies, economies that liberalized more strongly, in particular Finland, the Netherlands, Sweden, Denmark, and Sweden, should have been affected more strongly by the crises than countries that have not liberalized.

Second, echoing the idea of two institutional equilibria, LMEs and CMEs should perform better than hybrid economies or economies with a non-consistent institutional arrangement. As was shown empirically in our prior work (Schneider, & Paunescu 2012), economies out of equibilibrium in general do not show comparative advantages. Though that finding should apply in general, it will likely be aggravated in a severe crisis.

Third, CMEs will be more successful than LMEs in containing the post-2007 crisis because of their coordinated labor market, namely relative strong collective bargaining institutions and biting employment protection. Conversely, LMEs are distinctive of labor market institutions based on exit (not voice), their performance in terms of unemployment will suffer more strongly in the aftermath of a severe shock.

These points will be addressed with a number of indicators. As a first illustration, the increase in the unemployment rate, measured in percentage points, will be juxtaposed alongside the main findings of our institutional analyses (see Figure 1). The cursory analysis reveals some face value support for the three points.

Figure 1: Increase in unemployment rate (percentage points) in the post-2007 crisis and recovery phase, by capitalist variety



Notes: Figures on unemployment rates taken from OECD (2012). Composition of country clusters based on analysis by Schneider, & Paunescu (2012). Composition refers to the year 2005. Among the countries studies, some shoed particularly strong institutional change leading to a movement toward the cluster “economies with resemblance to liberal market economies” or the cluster “liberal market economies. These countries were: Denmark, Finland, the Netherlands, Spain, and Sweden.
Por: Portugal is the only country in a remaining cluster for which data was available. The other two countries were Greece and Turkey.
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