Globalisation and the dynamics of capitalism diversity

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Capitalism diversity

• How to analyse the diversity among (developed) capitalist economies?
• Not simply a list of institutional specificities
• Four elements to take into consideration:
  • socio-economic model: the institutions characterising the different models of capitalism
    • Institutional complementarities
  • dominant social bloc
    • Social alliance supporting the dominant political (and policy) strategy
  • political actors
    • Implementing a certain strategy/ institutional change & economic policy
  • macro- economic policy
• Various typologies found in the literature
  • “mainstream” VoC: CMEs vs. LMEs (too rigid and unidimensional)
  • Other approaches... Amable(2003): 5 models
• What matters is not the number of cases, but the theory underlying the classification
Globalisation and its consequences

• Mainstream views:
  • One best way: globalisation, by strengthening the competitive pressure on firms/industries/countries, leads to a convergence towards the unique optimal model of “liberalised” capitalism
  • VoC: because of their respective comparative institutional advantage, CMEs and LMEs will respond differently to globalisation
    • CMEs more coordinated and less social conflict
    • LMEs more deregulated and social conflict should intensify

• Globalisation as a source of increasing tensions
  • Between a push for productive specialisation and pressures for increasing institutional uniformity
  • Increasing inequalities and diminished possibilities for inequality-reducing policies
  • Globalisation instrumental in initiating a change of model
    • From the Fordist compromise to the neoliberal regime
    • From an alliance between a fraction of capital and labour to an alliance between capital and a fraction of labour
Globalisation favouring the implementation of neoliberal reforms

• Financial liberalisation
  • ‘freedom’ of capital movements
  • Tax evasion undermining institutions/fiscal policy

• Product market competition
  • Privatisations; the end of public services/utilities

• Labour market liberalisation
  • Lower employment protection
  • Development of precarious employment

• Welfare state retrenchment
  • Lower coverage of various risks
  • Lower generosity of benefits

• ...

• Institutional complementarities working in reverse
<table>
<thead>
<tr>
<th>Structural reforms \ consequences for institutions</th>
<th>Employment relation</th>
<th>Product market competition</th>
<th>Social protection</th>
<th>Financial system</th>
<th>Education system</th>
<th>Fiscal policy</th>
</tr>
</thead>
<tbody>
<tr>
<td>Labour market deregulation</td>
<td>More individualistic; less investment in co-specific assets (skills etc.)</td>
<td>Less quality-based production as a result of less investment in co-specific assets</td>
<td>Increased demand for social protection (substitution for diminished employment protection)</td>
<td>Increased demand for private insurance (substituting for decreased Employment protection) favours the expansion of the financial sector</td>
<td>Increased demand for “marketable” skills contributes to redistributive policies less socio-politically acceptable</td>
<td>Increased individualisation and less solidaristic bargaining make redistributive policies less socio-politically stable</td>
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<tr>
<td>Product market deregulation</td>
<td>Increased competition make firms more reluctant to grant employment stability to wage-earners</td>
<td>Increased competitive pressure on firms; privatisations favour the position of private oligopolies</td>
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<td>makes “fiscal optimisation” practices easier and favours fiscal competition</td>
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<tr>
<td>Social protection retrenchment</td>
<td>Increased income risk linked to labour market fluctuation; leads to an increased demand for employment protection</td>
<td>Less protection for specific assets of wage earners; influence on production specialisation</td>
<td></td>
<td>Increased demand for private insurance;</td>
<td>Increased demand for “marketable” skills</td>
<td>Decreased public expenditure and taxation</td>
</tr>
<tr>
<td>Education system reforms (privatisation, increase in fees...)</td>
<td>Increased differentiation makes solidaristic wage setting more difficult; increase in inequality</td>
<td>Less emphasis on specific skills; makes some productions more difficult</td>
<td></td>
<td>Increased private financing demand for student loans</td>
<td></td>
<td>Decreased public expenditure and taxation</td>
</tr>
<tr>
<td>Financial system deregulation</td>
<td>Increased financialisation of industrial firms</td>
<td>Competition from private insurance systems</td>
<td></td>
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<tr>
<td>Fiscal policy changes</td>
<td>Less redistribution makes income more dependent on labour market wages</td>
<td>Macroeconomic stabilisation policies more difficult, increased business cyclicality</td>
<td>Pressures on retrenchment</td>
<td>Favours financial sector’s development</td>
<td>Public education’s financing more difficult; favours increasing privatisation</td>
<td></td>
</tr>
</tbody>
</table>
No automatic process

- Institutions, as political compromises depend on national socio-political conditions
- Example of welfare state retrenchment
  - Economic literature emphasising the role of economic changes (trade openness...)
  - Political economics/political science focusing on political institutions (PR vs, MJ) or partisanship...
  - Interaction between political equilibriums and economic evolution (Amable, Gatti & Schumacher 2006)
- Globalisation influencing the domestic political equilibriums and leading to institutional changes
  - Economic dynamics affecting differently various social groups and their social and political expectations
Fiscal competition undermining the social model

• Using Amable & Gatti (2005) *The political economy of job protection and income redistribution*

• Internationalisation changing the balance of socio-political forces

• Model with three social groups: capital and two groups of workers
  • Labour segmentation: one worker group protected, the other not
  • one worker group is a net benefactor from taxation/redistribution

• Two institutions: employment protection legislation and redistribution

• The three groups have conflicting preferences over the institutional configuration
  • Capital-labour and possibly intra-labour conflict over taxation/redistribution
  • Intra-labour and capital-labour conflict over EPL

• They need to build a political compromise that emerge via a political exchange between the groups that can form a coalition
Tax evasion undermining domestic compromises

- Capital has the possibility of partially evading taxation
  - The French Tax Council reported that firms’ reaction to the tax competition induced by globalisation was not so much to move capital and relocate production units, but to keep production in their original locations and merely shift profits to places where the tax rates were the lowest (Conseil des impôts, 2004)

- Increasing tax evasion sharpens the intra-labour conflict over taxation/redistribution

- Possibility of a coalition between capital and the dominant group of workers involving some EPL and redistribution

- Increased internationalisation (tax evasion) modifies the coalitional equilibrium:
  - Less EPL
  - Less redistribution

- Equivalent to an increased bargaining power of capital
‘growth models’ within Europe

• “renewal” of VoC: “growth models (Baccaro & Pontusson 2016):
  ‘Our analytical framework identifies multiple growth models based on the relative importance of different components of aggregate demand—in the first instance, household consumption and exports—and relations among components of aggregate demand. Our “growth models” are more numerous and more unstable than Hall and Soskice’s “varieties of capitalism.”

• Question of the compatibility between export-led (Germany…) and consumption-led (Italy…) countries within Europe

• But also question of the stability of the various growth model
A Kaleckian model (Blecker and Franke)

- Saving & investment functions
- Public expenditure, taxation, public debt
- Foreign trade, foreign assets
- Conflicting claims inflation
- Macroeconomic equilibrium

\[
\begin{align*}
g^s &= g^i + bb + ca = g^i + bb + tb + i^*f \\
g^i &= \gamma + \gamma_uu + \gamma_\pi\sigma_\pi \\
tb &= \chi + \phi_\epsilon\epsilon - \phi_uu \\
\frac{G}{K} &= \frac{\gamma_n}{v} - \gamma_c\left(\frac{u}{v} - \frac{1}{v}\right)
\end{align*}
\]
Short term: profit-led or wage-led regimes
Medium term: real exchange rate and wage rate (income shares) equilibrium
Long term: public debt and net foreign assets dynamics
Long term dynamics

- Possibility of unstable trajectories (saddle-point dynamics)
  - Questionable compatibility of export-led and demand led countries within the EU

- Impact of “structural reforms”:
  - Drop in public expenditures
    - Short term demand-depressing effect: decrease in $u$
    - No impact on income shares or the real exchange rate (in the absence of a Phillips effect in wage determination)
    - Long-run impact: the $\dot{d} = 0$ locus moves downward
      - Lower public debt and higher net foreign assets in the stable configuration (Germany’s bet?)
      - More contrasted impact in saddle-point configurations and (high) possibility of a destabilising trajectory
To conclude

• Impact of globalisation on the diversity of capitalism: neither convergence to a supposedly optimal and unique configuration nor the reinforcement of specificities of idealised varieties

• Common trend toward liberalisation, facilitates further neoliberal institutional change

• Destabilisation of past socio-political compromises as a functional necessity for the establishment of a new regime
  • Increasing labour market segmentation and/or income/wealth inequality necessary for the emergence of a neoliberal regime in most developed capitalist economies