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Institutional and developmental paths differences among developed countries: the varieties of capitalism. A literature review

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While "capitalism", defined as an economic system built on private ownership of property, clearly has prevailed for 200 years, there are many differences among the nearly 200 countries that now practice it in some form, included among developed countries. All variants of capitalism function within market economies, accordingly they share numerous common institutions; however the way institutions and incentives operate may be very different, which leads to significant varieties among capitalist economies. This paper overviews the bourgeoning literature on the varieties of capitalism, by identifying the major strands within it. The discussion of the varieties of capitalism is in the framework of institutional analysis.

Key words: varieties of capitalism, institutions, liberal market economy, coordinated market economy, common law, civil law

JEL codes: O57, P10, P17

Introduction

While "capitalism", defined as an economic system built on private ownership of property, clearly has prevailed for 200 years, there are many differences among the nearly 200 countries that now practice it in some form. All variants of capitalism function within market economies, accordingly they share numerous common institutions; however the way institutions and incentives operate may be very different, which leads to significant varieties among capitalist economies.

These differences merit an in-depth analysis, since there are significant differences in various performance measures such as economic growth, unemployment, inflation, total factor productivity etc. So, it is not a surprise that the economic literature devotes explicit attention to this issue. The theory of the Varieties of Capitalism (VoC) derives from the pioneering work of Hall and Soskice (2001), which introduced the term itself. This theory is concerned with analysing the variety of capitalism within the OECD, that is, developed countries. Later on, the literature on the topic has significantly developed, digging even deeper in two respects. First, new details on the variety of developed economies have been explored, and second, new problems on the issue have been raised (such as the variety of transition economies).

Besides the typology developed in Hall and Soskice (2001), there exist other categorisations as well, which differ slightly by putting the emphasis on different aspects of capitalism. Of them, two are of particular importance: the one developed in Baumol et al. (2007) which identifies "bad" and "good" capitalism, putting the developed countries into the "good" one; the other is the categorisation based on the social models (e.g., Sapir 2006) and the welfare-state attributes of capitalism (Esping-Andersen 1990).

The VoC, however, does not deal with the root cause of the variety of capitalism. New developments in economics, especially in institutional economics have provided an answer to the question of why there are significant institutional and performance differences across developed countries. This approach is the Legal Origins Theory which originated in various paper of scholars such as La Porta, Djankov, Shleifer, Glaeser, Lopez-de-Silanes.

This paper will give an overview of the literature on the varieties of capitalism. The next section will summarize the VoC theory, while also shedding some light on the empirical analyses on the topic. Then I will present two alternative categorisations of developed countries which are slightly different. Next, special emphasis will be given to the Legal Origins Theory which, on the one hand, gives another classification, and on the other, provides us with an answer to the causes of differences. Before turning to a brief summary, I will deal with the issue of the varieties of transition economies, as a new and important topic emerging as a result of post-socialist transition.

The Varieties of Capitalism theory

Hall and Soskice (2001) developed a powerful account of how different institutional configurations have shaped capitalism. This theory is known as the Varieties of Capitalism. The VoC can be seen as the historical institutionalist approach to the study of capitalism (Allen 2004). Varieties of Capitalism is based on “understanding … institutional similarities and differences among the developed economies” (Hall and Soskice 2001:1), but unlike most other institutional accounts the importance of institutions lies primarily in their capacity to structure strategic interaction between economic actors and solve firms’ coordination problems.

The theory has several theoretical building blocks, of which institutional analysis and political science are of primary importance. Both involve the concept of path-dependence and lock-in effects: the complementary institutions create self-reinforcing feedback loops that push development in the respective political economies along familiar paths and make departures from traditional practices very difficult. That is, there is a tendency for institutions to reinforce each other, forming an interlocking ensemble that is resistant to change.

A crucial part of the theoretical framework of Varieties of Capitalism is the specification of two ideal types (for details see Hall and Soskice 2001), the *liberal market* *economy* (LME) and the *coordinated market economy* (CME), each with a distinctive set of institutions that solves the coordination problem in quite different ways. Because of institutional complementarities, LMEs and CMEs differ systematically in their institutional configurations, that is, in their systematic combination of institutions, and these differences are stable over time.

Liberal market economies, epitomized by the United States, rely upon competitive markets. Economic actors have only arms-length relationships with each other, mediated by markets, and coordination takes place in response to price signals. In these economies one can find competitive labour markets, with a high degree of managerial prerogative and limited collective bargaining, and highly developed capital markets that emphasize the maximization of share price in the short term. Due to a heavy reliance on markets, this model is particularly suited to promote strategies of radical innovation. LMEs thus compete successfully in high-tech, high-risk sectors.

Coordinated market economies, in contrast, epitomized by Germany, rely on nonmarket forms of coordination including negotiation, bargaining, and collaboration. Here bargaining relationships between unions and employers and a sharing of power within the firm, relatively rigid internal labour markets, heavy investment in skill formation, a high degree of coordination among employers, interfirm networks, and long-term, bank-based finance flourish. That is, the CME relies much more on consensual and cooperative relations among enterprises, between enterprises and their respective banks, as well as between social partners: firms "depend more heavily on non-market relationships to coordinate their endeavours with other actors to construct their core competencies" (Hall and Soskice 2001:8). It is claimed that institutions complement each other in the sense that the cooperative wage-setting systems are complemented by a robust vocational training system, concentrated ownership in corporate governance and a financial system dominated by relational banking.

Although CMEs are less well prepared to promote radical innovation, they compete successfully in sectors where incremental innovation is crucial. Coordinated market economies appear to be particularly successful in generating high skill, high wage, high productivity employment because of their combination of skilled labour with employees' rights within the firm.

Clearly, according to the theory, each type of capitalism should have its own, industry-specific technological and comparative advantages which follow from the organization of institutions. More particularly, Hall and Soskice (2001) predict that LMEs will hold comparative institutional advantages in radical innovation, that is, the implementation of completely new processes and the development of new product lines. Conversely, CMEs will hold comparative institutional advantages in incremental innovation, that is, the continuous improvement of existing product lines or processes.

In both models, the different institutional elements are tightly linked and reinforce each other. Hall and Soskice (2001) also note that within the OECD several countries, including France, Italy, and Spain, do not fit into either of the two ideal types. They suggest that there may be a "Mediterranean" type, but the discussion of alternatives to liberal market economies and coordinated market economies is missing.

The VoC theory argues that neither of the two systems has obvious advantages that are consistent over time and across all productive activities, meaning that there is no single best set of institutions. As for the likelihood of a convergence among capitalist societies in response to the multiple changes in the world of globalisation, basically, the approach is sceptical about convergence. Rather, it is argued that convergence takes place within one class of capitalism but not between them: countries within each group become more alike but the central divide between liberal market economies and coordinated market economies remains and indeed becomes starker.

The propositions of the VoC have served as a starting point for country case studies (e.g., Schmidt 2003) and have inspired cross-country comparisons of innovation patterns and success at the firm level (e.g., Casper and Whitley 2004). However, in these tests of the VoC approach, the measures used to portray differing institutional setups were mostly limited to the labour market regulation and the financial system. The empirical supports are rather mixed. Another important paper is Schneider et al. (2010) that resonates with the results presented by Akkermans et al. (2009) who find some – but not complete – support for the sector-specific comparative advantages posited by Hall and Soskice (2001).

Schneider and Paunescu (2012) is an innovative paper because here the two authors described institutional configurations more comprehensively than previous studies, by a set of measures that extend to the four institutional spheres distinguished by Hall and Soskice (2001). When testing the VoC approach, among 26 OECD countries, the authors find various institutional configurations including a group of LMEs and of CMEs. Their categorisation is finer since they distinguish 5 groups, namely state-dominated economies, CMEs, hybrid economies, LME-like economies and LME-s. Table 1 shows the clusters. The major conclusion is that these configurations are not stable: from 1990 to 2005, Denmark, Finland, the Netherlands and Sweden all moved from the CME model closer to the LME model. Schneider and Paunescu' s (2012) findings are partly an answer to those who argue that the VoC approach is overly static and its distinction between liberal and coordinated market economies is outmoded by the liberalization of the world economies.[1]

VoC has also been tested in a way to look at the performance of the countries. For instance Coates (2000), focusing on the US, UK, Japan, Germany and Sweden, documents the degree to which the post-war performance of each was affected by the strength of labour institutions, the quality of education and training, particular cultural systems, the organization

[1] Note also that to react to the criticism of neglecting issues of institutional change, Hall and Thelen (2008) developed a more extended approach to institutional change than the one provided in Hall and Soskice (2001), but congruent with the VoC perspective.

of industry and finance, and the role of the state. In the same spirit, Hall and Gingerich (2009) provide a statistical analysis of core contentions of the VoC perspective. The authors construct indices to assess whether patterns of co-ordination in the OECD economies conform to the predictions of the theory and compare the correspondence of institutions across sub-spheres of the political economy. To assess the durability of varieties of capitalism, they report on the extent of institutional change in the 1980s and 1990s.

Liebman's (2009) research is about explaining shifts from CMEs towards LMEs, which represents a new line of research in the VoC. This empirical analysis is concerned with the dynamism of VoC instead of testing comparative advantages according to the predictions of the VoC theory.

"Good" or "bad" capitalism

Schneider and Paunescu's (2012) analysis shed some light on the possibility of alternative classification as regards the groups within capitalism. Baumol et al.'s (2007) book not only provides us with alternative classes, but what is more, it also evaluates various capitalisms according to their merits. As a result, as they argue, there are "good" and "bad" capitalisms.

Baumol et al. (2007) divide capitalism into four broad categories. These are: entrepreneurial, big-firm, state-directed, and oligarchic. The first two characterize the developed countries and are classified as "good", the latter are present almost exclusively within developing countries and are "bad".

Oligarchic capitalism is the worst form of capitalism because here elites do not have an interest in promoting growth as the central goal of economic policy. Under this form of capitalism one can find extreme inequality in income and wealth, and power is very concentrated. Democratic institutions such as free elections and checks and balances are missing in these countries. Even market institutions function very badly: property rights are not secure, the enforcement of contracts is very weak, state intervention and corruption is high. In this form of capitalism oligarchs (elites) use the state to maximize their own income and wealth. Such an institutional setting prevails in large parts of Latin America, the Arab Middle East and Africa.

State-guided capitalism is a capitalism where state intervention in the economy is very strong, which weakens, accordingly, the functioning of market institutions. Here the primary goal of economic policy is economic growth which is achieved by favouring specific firms or industries. Governments allocate credit through direct bank ownership or by guiding credit decisions by privately owned banks, provide direct subsidies and/or tax incentives, grant trade protection, or use other regulatory devices. The best example of this type of capitalism is Southeast Asia. There is no doubt that these economies have demonstrated great success with state guidance for a long period, but state-guidance has its limits: once such economies come close to the production possibility frontier, policymakers run out of industries and technologies to copy. That is, radical innovations are missing in these economies. The winners are selected by the state rather than being selected by markets, which is against efficiency and is very risky.[2]

Big-firm or managerial capitalism characterises economies where large firms, often so-called national champions, dominate production and employment. Big firms exploit economies of scale and use the radical innovations developed by entrepreneurs. They are able to develop innovations in mass-production. Western European economies and Japan are leading examples of managerial capitalism. Smaller enterprises exist, but are typically retail or service establishments. However, managerial capitalism, too, has its Achilles heel. Big firms are too bureaucratic and they are relatively risk-averse because they are reluctant to

[2] Here there is a great risk of choosing wrong industries, or channeling too much investment into particular sectors. Such a tendency contributed significantly to the Asian financial crisis of 1997-98.

back innovations that threaten to render obsolete the products or services that currently account for their profits. According to Baumol et al (2007), the limits of managerial capitalism explain why, after approaching the U.S. level of per capita income in the late 1980s, both Western Europe and Japan failed to match US information-technology-driven productivity growth that began in the 1990s.

The fourth type of capitalism is *entrepreneurial* capitalism which includes economies with dynamism coming from new firms. Du to this permanent dynamism, their production possibility frontier is constantly extending. In entrepreneurial capitalism institutions of the free market provide strong incentives for actors to realize full economic potential. Property rights are secure, regulatory institutions support the market, so there are high returns to productive entrepreneurship. Actors include both large and small firms, where large firms have the financial and human resources to refine and mass-produce radical innovations, and small, newer firms are responsible for radical innovations. So, entrepreneurship ensures growth-enhancing innovation, while large firms consolidate and distribute the innovations.

Baumol et al (2007) argue that only "good" capitalism, namely entrepreneurial and managerial, or a mixture of these two, provides all the economic, social, and political benefits that capitalism affords. Only these lead to growth and prosperity in the long run. Their analysis is mainly descriptive, but they also make it clear that government policy can promote entrepreneurial capitalism, and hence economic growth, by implementing suitable legal, tax, and institutional arrangements that reward entrepreneurship; making market entry (and exit) easy; discouraging unproductive rent seeking; and ensuring vigorous competition (including from imports).

Clearly, here, when it comes to the developed countries, the categorisation of capitalism is between Western Europe and Anglo-Saxon countries, which is, to a significant extent, in line with Hall and Soskice (2001): Western Europe can be paralleled with CMEs and the Anglo-Saxon countries with the LMEs.

European social models and welfare-state regimes

Alternative categorisations of capitalism are related to particular characteristics of the welfare states. Here one important strand in the literature is Sapir (2006) who is concerned with analyzing the European countries. While denying the notion of a single „European social model", he argues that there are four different European social models which exhibit different efficiency and equity attributes. Table 2 shows Sapir's (2006) typology. As can be seen from this table, the *Nordic* and the *Anglo-Saxon* models are both efficient, but only the former manages to combine equity and efficiency. The *Continental* and *Mediterranean* models are inefficient and unsustainable; accordingly, as he argues, they must be reformed.

Nordic countries (Denmark, Finland and Sweden, plus the Netherlands) feature the highest levels of social protection expenditures and universal welfare provision. There is extensive fiscal intervention in labour markets based on a variety of „active" policy instruments. Strong labour unions ensure highly compressed wage structures. Anglo-Saxon countries (Ireland and the United Kingdom) feature relatively large social assistance of the last resort. As for the labour market, this model is characterized by a mixture of weak unions, comparatively wide and increasing wage dispersion and relatively high incidence of low-pay employment. Continental countries (Austria, Belgium, France, Germany and Luxembourg) rely extensively on insurance-based, non-employment benefits and old-age pensions. Although their membership is on the decline, unions remain strong in collective bargaining. Mediterranean countries (Greece, Italy, Portugal and Spain), concentrate their social spending on old-age pensions and allow for a high segmentation of entitlements and status. Their social welfare systems typically draw on employment protection and early retirement provisions. The wage structure is, at least in the formal sector, covered by collective bargaining.

The four European social policy models behave very differently. The Mediterranean model is characterized by very strict employment protection regulations and a rather low coverage of unemployment benefits. On the opposite side, the Nordic model provides unemployment benefits which are both generous and comprehensive, but the strictness of their Employment Protection Legislation (EPL) is quite low. Figure 1 shows EPL data for some OECD countries: Spain, France, Greece, Portugal, that is, Mediterraneans and Continentals, exhibit the worst values, while UK and Ireland, that is, Anglo-Saxon countries have the best values in this respect.

Sapir (2006) suggests that both Nordic and Anglo-Saxon models are sustainable, while Continental and Mediterranean models are not and must be reformed in the direction of greater efficiency by reducing disincentives to work and to grow.

Esping-Andersen (1990) provides us with a different typology of the welfare sates. According to him, there are three types of welfare-state regimes: *liberal*, *corporatist* and *social democratic*. The *liberal* welfare state (e.g., US, UK, Canada) includes the modest universal transfers or modest social-insurance plans. Here the state generally encourages the market to act as a co-provider of benefits, partly by providing a low level of public services. The *corporatist* welfare state (e.g., Germany, Austria) preserves traditional family-hood: state intervenes only when the family is exhausted. It preserves status differentials. *Social democratic* welfare state (e.g., Sweden, Norway, Denmark) embodies the principle of universalism. It is a fusion between markets and socialism, relies on new middle class. Since the level of public services is so advanced, the state has crowded out all private competition. In addition, the social democratic welfare state tends to reduce class and income differences, while ensuring the highest possible level of service.

Esping-Andersen (1990) developed also an index of de-commodification which captures the degree of market interdependence: a higher score means greater degree of de-commodification. The Espring-Andersen index of de-commodification is shown in Figure 2. Clearly, as expected based on the theory, liberal countries such as Australia, US, Canada, New Zealand are at one extreme, while social democracies such as Sweden, Norway, Denmark are at the other extreme, and corporatists such and Austria or Germany are in-between. Table 3 contains particular components of the index. The data provide evidence of what is argued by the theory as regards pensions, sickness and unemployment benefits in various welfare-sate regimes. Scandinavian social democratic countries have the highest values in both pensions and sickness benefits, while liberal welfare states (US, Australia, New Zealand) the lowest ones.

Legal origin and the rule of law

The VoC approach does not account for the emergence of institutions; instead, it usually assumes their prior existence. The Legal Origins Theory is intimately related to the discussion of the varieties of capitalism by accounting for the historical institutional roots of this variety. In this way, it complements the VoC approach by providing causal arguments. The Legal Origins Theory argues that the differences in legal rules and regulations are, to a significant extent, accounted for by legal origins, and the measured differences in legal rules matter for economic and social outcomes. So, legal origins are closely related to the types of capitalism: the legal origin is central to understanding the varieties of capitalism since it determines political, economic and other legal institutions and the level of regulation but also whether the government is able to behave in a freedom compatible way by respecting and securing the rule of law.

Law is the most basic institution of an economy (see Benson 1999), which is heavily influenced by whether a particular country has either a common law or a civil law tradition. The common law tradition originates in the laws of England, and has been transplanted through conquest and colonization to the colonies, including the US, Australia, Canada, and many countries in Africa and Asia. The civil law tradition has its roots in the Roman law. Napoleon exported French civil law to much of Europe, and later it was transplanted through conquest and colonization to Latin America and parts of Africa and Asia.

The two legal systems operate in very different ways: civil law relies on professional judges, legal codes, and written records, while common law on lay judges, broader legal principles, and oral arguments. Glaeser and Shleifer (2002) show why and how these two different systems of law evolved in the 12th century in Europe. They associate the historical evolution of the law in the two countries with whether the king was more powerful than landlords. The reason behind this is that the higher the risk of coercion, the greater the need for protection and control of law enforcers by the state. Glaeser and Shleifer (2002) clearly show that both France and England opted for a system that was more efficient for each country at the time.

Despite the fact that English judges served the king, juries remained a check on royal discretion. In England the principal source of law was historical precedent rather than the will of the sovereign. The French path was radically different: the judges were directly beholden to the king and the king had the ability to influence their actions through appointments and bribes. The English judges gained considerable independence from the Crown, including lifetime appointments in the 1701 Act of Settlement (La Porta et al. 2008). Basically, Magna Carta established the foundations of the English legal order, with the idea that the king was not above this order (La Porta et al. 2002). So, due to the differences going back to the 12th and 13rd centuries, by the 18th or 19th centuries England and Continental Europe, particularly

France, had developed very different styles of control of business, and institutions supporting these styles. Later on, although a great deal of legal and regulatory change has occurred, these styles have proved persistent in addressing social problems. In Table 4 I summarize the major differences between the two legal origins.

One of the major differences resulting from legal origin is in the rule of law: the rule of law emerged in an evolutionary process in England, and, accordingly it has a specific connotation that only English speaking people understand by this expression. The rule of law is government's reliance on general, abstract rules known beforehand, and according to Hayek (1960), it includes the following principles: (1) the certainty, (2) the generality and (3) the equality of the law. These characteristics of the law are extremely important for economic activities, accordingly, for entrepreneurship leading to economic development. So, common law countries exhibit a higher level of the rule of law than civil law countries do. This is important because the rule of law as one of the most basic institutions of an economy affects other institutions and economic performance.

Based on the distinction between common law and civil law, the Legal Origins Theory of La Porta et al. (2008) provides a general framework for an understanding of how and why (through which channels) the common law tradition has led to superior economic outcomes in terms of better institutions, regulations and rules. Table 5 lists the major institutions in which differences occur and points to respective outcome differences. If we compare countries at the same level of development, French civil law countries exhibit heavier regulation, weaker property rights protection, more corrupt and less efficient government, and even less political freedom (La Porta et al. 1998a, Djankov et al. 2002). So, civil law countries more easily accommodate the expansion of government intervention in economic and social life.

La Porta et al. (2008) show that legal origins influence many spheres of law-making and regulation. Although their sample does not only include the developed countries, their findings shed some light on the substantial differences between common and civil law countries. Their major findings are as follows. Both French and German Civil law countries have more entry and labour regulation, higher state ownership of the media, and heavier reliance on conscription. Civil law countries have more legal formalism, lower judicial tenure, and lower constitutional acceptance of case law. Common law is associated with (1) better investor protection, which leads to better financial development and higher ownership dispersion; (2) lighter government ownership and regulation, which leads to less corruption and a better functioning labour market; (3) less formalized and more independent judicial systems, which are associated with more secure property rights and better enforcement of contracts.

A comprehensive measure of the ease of doing business, developed by the World Bank can be used to highlight institutional and regulatory differences between common law and civil laws countries. Table 6 shows the ranks for 2011 for many developed countries. Here as regards the civil law countries, a more detailed categorisation is used, namely French, German and Nordic (Scandinavian) civil law origins are distinguished.[3] The average ranking for common law countries is 8,57, while it is 18,16 for civil law countries. These data point to the much better position of common law countries when it comes to market-enhancing institutions and regulations.

Having determined this, the question is about causation: how can legal origin influence financial and economic development? Is it through legal rules or perhaps other rules? The most common version of the causation is that legal origin influences contract enforcement and the quality of the judiciary; and it is through this channel that it effects development; and La Porta et al. (2004) and Djankov et al. (2003) show that common law is associated with better contract enforcement and it is likely to be more respectful of private

[3] The German and the Scandinavian civil law is somewhat hybrid, the Scandinavian is the one that is the closest to common law (La Porta et al. 1998a).

property than civil law. The greater respect for jurisprudence as a source of law in the common law countries, especially as compared to the French civil law countries, suggests that common law will be more adaptable to the changing circumstances (Hayek 1960, Levine 2005).

So, basically through their effects on finance, labour markets and competition, legal origins influence resource allocation. Mahoney (2001) shows that during the period 1960-1992 common law countries grew faster than civil law countries through greater security of property and contract rights. This empirical work – together with others (e.g., Levine 2005) – thus underpins the argument that the rule of law largely determines the extent to which property rights are secure and contractual freedom and contract enforceability prevail in a country: the difference reflects the common law's greater orientation toward private economic activity and the civil law's greater orientation toward government intervention.

The empirical findings, in fact, echo Hayek's (1960) claims regarding the superiority of English to French legal institutions. For instance, according to Mahoney (2001) legal origin is not merely an instrument for financial development, but is causal in its own right: common law countries provide greater freedom to their citizens; as a consequence they experience more rapid economic growth. There are numerous empirical examinations (e.g., La Porta et al. 2004, Beck et al. 2003, Mahoney 2001) in the spirit of the Hayekian idea according to which the common law tradition – that is, the rule of law – is associated with economic freedom (limited government in the terminology of these scholars). La Porta et al. (1997, 1998b) provide evidence that common law countries have better systems of corporate law on average, too.

In sum, there is a great amount of evidence that legal origins influence legal rules and regulations, which in turn have a substantial impact on important economic outcomes, such as financial development, unemployment, investment, entry, the size of the unofficial economy, and international trade. Rajan and Zingales (2001, 2003) show that common law countries appeared to be more financially developed than civil law ones at the start of the 20th century, and in particular Britain was ahead of France. Over the course of the 20th century, the differences widened, which is shown in Figure 3. The legal origin hypothesis has recently been applied to labour regulation: "the historical origin of a country's laws shapes its regulation of labour and other markets" (Botero et al. 2004:1340).

Thus, much evidence suggests that common law is associated with better economic outcomes than French civil law. Note however, that despite the large amount of empirical evidence on the performance advantage of common law countries, at the theoretical level, the Legal Origins Theory does not point to the overall superiority of common law; it rejects the claim that any one system represents a uniquely successful path to legal and economic development.

Balas et al. (2009) provide evidence for the persistence of the differences among legal origins, with no evidence of convergence. They find that large differences in procedural formalism between common and civil law countries existed in 1950 and widened by 2000, a fact that supports the view that legal origins exert long lasting influence on legal rules (see Figure 4).

Legal origin influences the predominant regulatory style of a given country, which leads in turn to a greater or lesser propensity to adopt protective labour legislation (among other things), after taking into account the roles of politics and culture. Ahlering and Deakin (2007) present empirical evidence on degrees of complementarity between different aspects of labour relations and corporate law, and the influence of particular legal and regulatory structures on economic outcomes (see Figure 5).

Having said that, the question of what kind of relationship between the VoC and the legal origin categorisation exist emerges. The correspondence is very clear: as Pistor (2006) points out, all the liberal market economies in the OECD are common law countries, and all the coordinated ones are civil law ones. The characteristics of liberal market systems such as the rule of law, secure property rights, liquid capital markets, shareholder-orientated corporate governance is due, to a significant extent, to their common law heritage; by contrast, in the coordinated market systems multi-stakeholder forms of governance, higher government intervention, heavy regulation etc. are underpinned by civil law practices and precepts. To highlight these facts, Figure 6 shows data on the Economic Freedom of the World Index which is seen as a measure for institutional quality. Anglo-Saxon countries have the best scores, while Continental and Mediterranean countries have the lowest ones. The same conclusion can be drawn from Figure 7 and 8, for the rule of law and regulatory quality, respectively.

Transformation countries

The VoC theory has been designed to analyse advanced capitalist economies, and it has limits when adapted to emerging capitalist countries (e.g., Central and Eastern Europe): according to Bohle and Greskovits (2007b) the VoC approach underestimates the true diversity of capitalism, especially outside the OECD world. They argue that a surprising diversity of capitalisms has emerged from the transformation of East European societies, and in a number of papers (e.g., Bohle and Greskovits 2007a, 2007b, 2009) they analyse the varieties of capitalism within the transition countries. They identified several categories of capitalism along various dimensions.

Bohle and Greskovits (2007b) identify a deep dividing line between the socio-economic regimes of countries of the Commonwealth of Independent States (CIS) and their counterparts in Central-Eastern Europe (CEE). Whereas the former are characterized by the persistence of non-market relations, and political domination of the economy, the latter seem to be closer to the Western type of liberal market economies. According to them, three capitalisms emerged from the transformation of Central-East European (CEE) societies: a *neoliberal* type in the Baltic states, an *embedded neoliberal* type in the Visegrad states, and a *neocorporatist* type in Slovenia. The three regimes are different in the levels of liberalisation, privatisation, and market-oriented institution building they have achieved. The neoliberal Baltic states excelled in market radicalism as well as macroeconomic stability. The embedded neoliberal and less market-radical Visegrad states achieved better results in building complex, competitive export industries. The least market-radical, neocorporatist Slovenia succeeded, in a balanced manner, in all the above areas simultaneously.

The findings of Bohle and Greskovits (2007a, 2007b) are in harmony with those of Lane and Myant (2006) who provide a useful and novel framework for comparing transformation processes and demonstrate how the different heritages of the communist and even pre-communist pasts led to different kinds of capitalist economies.

Kapás and Czeglédi (2007) also analysed the varieties of capitalism issue in the case of CEE. They focused on the distinction between the so-called frontrunners (the eight countries that joined the EU) and the other transition countries. By calculating how "far" a country's regulatory environment is from that of the U.S.[4], they showed that the regulatory environment of the frontrunners is closer to that of the welfare states than to that of the other transition countries (see Figure 9).

Summary

[4] The distances are expressed as percentage points, taking the most distant country, Belarus's distance as 100 per cent.

This paper summarized the insights of the major strands of the literature on the varieties of capitalism. As shown above, besides the VoC literature, alternative categorisations exist, proposing basically overlapping classes. While of course there is no one-to-one correspondence – common law countries are LMEs in the spirit of Hall and Soskice et al. (2001), liberal economies in terms of Sapir (2006) and Anglo-Saxon countries in the parlance of Esping-Andersen (1990). As for the civil law countries, their sub-categories can also be paralleled with the other typologies: civil law countries are CMEs in terms of Hall and Soskice (2001), but in terms of Sapir (2006) or Esping-Andersen (1990) they include Continentals, Mediterraneans, Nordics on the one hand, and corporatists and social democracies, on the other.

As was argued above, particular types of capitalism differ basically in institutional characteristics. While none of the theories argue for the common law (liberal market) capitalism's superiority of in terms of better economic performance, empirical investigations provide some evidence for that.

Cluster	1990	1995	1999	2003	2005
State-dominated economies	Turkey Italy Spain Belgium Greece	Portugal Greece Spain	Turkey Portugal Greece Spain	Turkey Portugal Greece Spain	Portugal Greece Turkey
CMEs	Austria Germany Denmark Finland Sweden France Netherlands	Austria Belgium Germany Czech Republic Norway Finland France Sweden Netherlands Italy	Austria Czech Republic Italy France Germany Belgium	Austria Belgium Germany Italy France	Austria Belgium Germany France
Hybrid economies	Norway Japan	South Korea Hungary Poland Japan	South Korea Poland Hungary Norway Japan	Hungary Poland Czech Republic South Corea Japan	Poland Italy Norway Czech Republic Hungary South Korea Japan
LME-like economies	Australia New-Zealand Ireland Switzerland	Switzerland	Denmark Sweden	Finland Netherlands Denmark Ireland New-Zealand	Spain Finland Netherlands Sweden Australia Ireland New-Zealand
LMEs	Canada USA United Kingdom	Denmark Australia Canada New-Zealand USA UK	Switzerland Finland Ireland New-Zealand Canada Australia Netherlands UK USA	Switzerland Australia UK USA	Switzerland Denmark UK Canada USA

Table 1: Clusters of capitalisms, 1990-2005
(Source: Schneider and Paunescu 2011:10)

		EFFICIENCY	
		Low	***High***
EQUITY	***High***	Continentals	Nordics
	Low	Mediterraneans	Anglo-Saxons

Table 2: The Four European Social Models
(Source: Sapir 2006:380)

	Pensions	**Sickness**	**Unemployment**	**Overall Index**
Australia	5,0	4,0	4,0	13,0
USA	7,0	0,0	7,2	14,2
New Zealand	9,1	4,0	4,0	17,1
Canada	7,7	6,3	8,0	22,0
Japan	10,5	6,8	5,0	22,3
Ireland	6,7	8,3	8,3	23,3
UK	8,5	7,7	7,2	23,4
Italy	9,6	9,4	5,1	24,1
France	12,0	9,2	6,3	27,5
Germany	8,5	11,3	7,9	27,7
Finland	14,0	10,0	5,2	29,2
Switzerland	9,0	12,0	8,8	29,8
Austria	11,9	12,5	6,7	31,1
Belgium	15,0	8,8	8,6	32,4
Netherlands	10,8	10,5	11,1	32,4
Denmark	15,0	15,0	8,1	38,1
Norway	14,9	14,0	9,4	38,3
Sweden	17,0	15,0	7,1	39,1

Table 3: The Espring-Andersen index of de-commodification
(Source: Espring-Andersen 1990)

Feature	Common law	Civil law
General principles	more general legal standards	codes and bright lines rules
Evidence	oral argument and evidence	much of the evidence is recorded or written
Appeal	the appeal is much less frequent, and is generally restricted to law rather than facts	regular and comprehensive superior review of both facts and law in case
Prosecution	state prosecutors	prosecution and judging are combined in the person of the same judge
Judgments	precedents from previous judicial decisions, established by independent judges	written codes (bright lines rules), established by the state
Transplantation	the transplantation of the common law regime is much easier and brings about less efficiency loss	more difficult transplantation
Freedom	higher levels of freedom from state coercion	lower levels of freedom
Coordination type	coordinative ideal	bureaucratic/hierarchical ideal

Table 4: The comparison of the common and civil law
(my own summary, based on Glaeser and Shleifer 2002)

Institution	Outcome
Procedural Formalism	Time to Evict Nonpaying Tenant Time to Collect a Bounced Check
Judicial Independence	Property Rights
Regulation of Entry	Corruption Unofficial Economy
Government Ownership of the Media	
Labor Laws	Participation Rates Unemployment
Conscription	
Company Law Securities Law	Stock Market Development Firm Valuation Ownership Structure Control Premium
Bankruptcy Law	Private credit
Government Ownership of Banks	Interest Rate Spread

Table 5: Legal origins, outcomes and institutions
(source: La Porta et al. 2008:292)

Country	Ease of Doing Business Rank	Legal origin
New Zealand	1	Common law (E)
United States	2	Common law (E)
Denmark	3	Civil law (N)
Norway	4	Civil law (N)
United Kingdom	5	Common law (E)
Korea, Rep.	6	Civil law (G)
Iceland	7	Civil law (N)
Ireland	8	Common law (E)
Finland	9	Civil law (N)
Canada	10	Common law (E)
Sweden	11	Civil law (N)
Australia	12	Common law (E)
Germany	13	Civil law (G)
Japan	14	Civil law (G)
Estonia	15	Civil law (F)
Switzerland	16	Civil law (G)
Belgium	17	Civil law (F)
France	18	Civil law (F)
Portugal	19	Civil law (F)
Netherlands	20	Civil law (F)
Austria	21	Civil law (G)
Israel	22	Common law (E)
Slovenia	23	Civil law (G)
Spain	24	Civil law (F)
Slovakia	25	Civil law (G)
Luxembourg	26	Civil law (F)
Hungary	27	Civil law (G)
Poland	28	Civil law (G)
Czech Republic	29	Civil law (G)
Italy	30	Civil law (F)
Greece	31	Civil law (F)
Common law average: 8,57 Civil law average: 18,16		

Table 6: The ease of doing business in some common law and civil law countries
(Source of data: Doing Business 2012 and La Porta et al. 2008)
F: French, G: German, N: Nordic

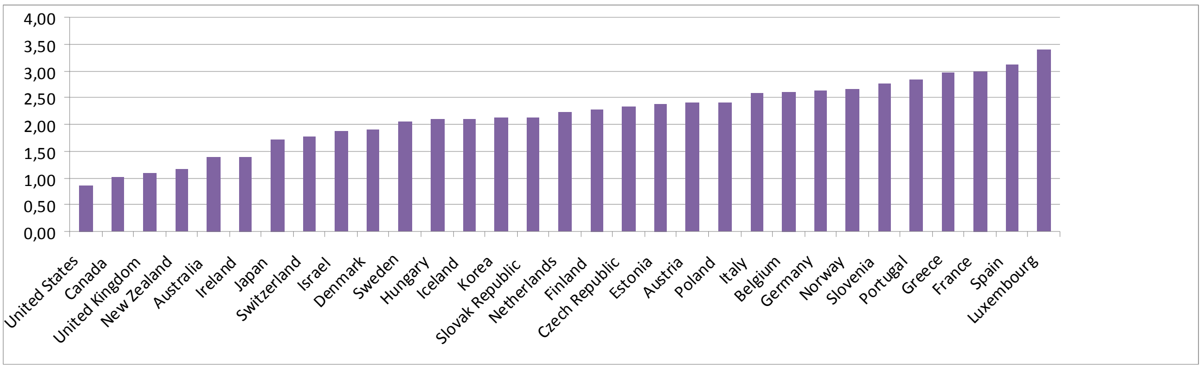

Figure 1: Overall strictness of EPL in 2008
(Source of data: OECD Statistics)

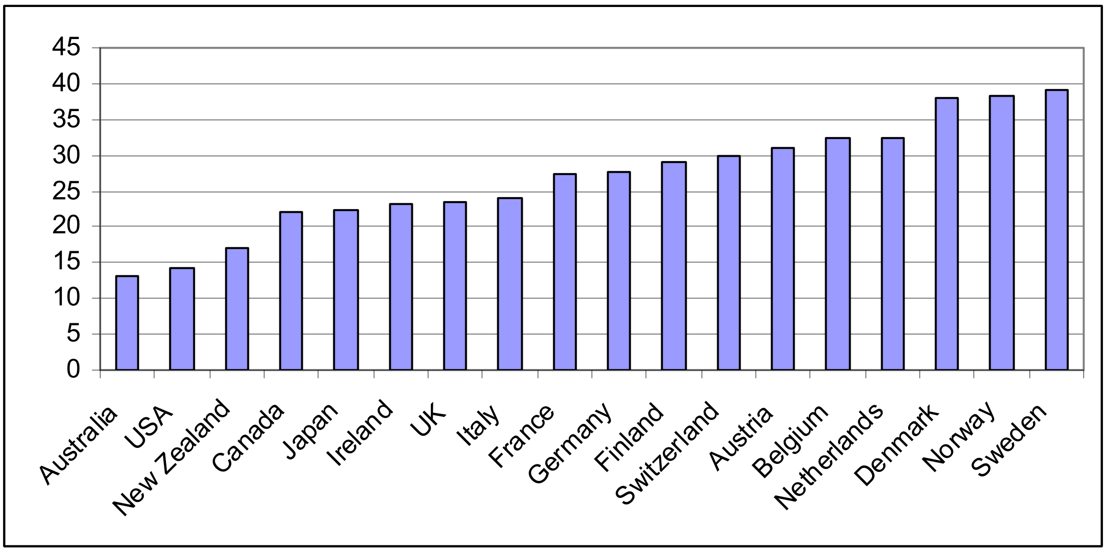

Figure 2: The Espring-Andersen index of de-commodification
(Source: Espring-Andersen 1990)

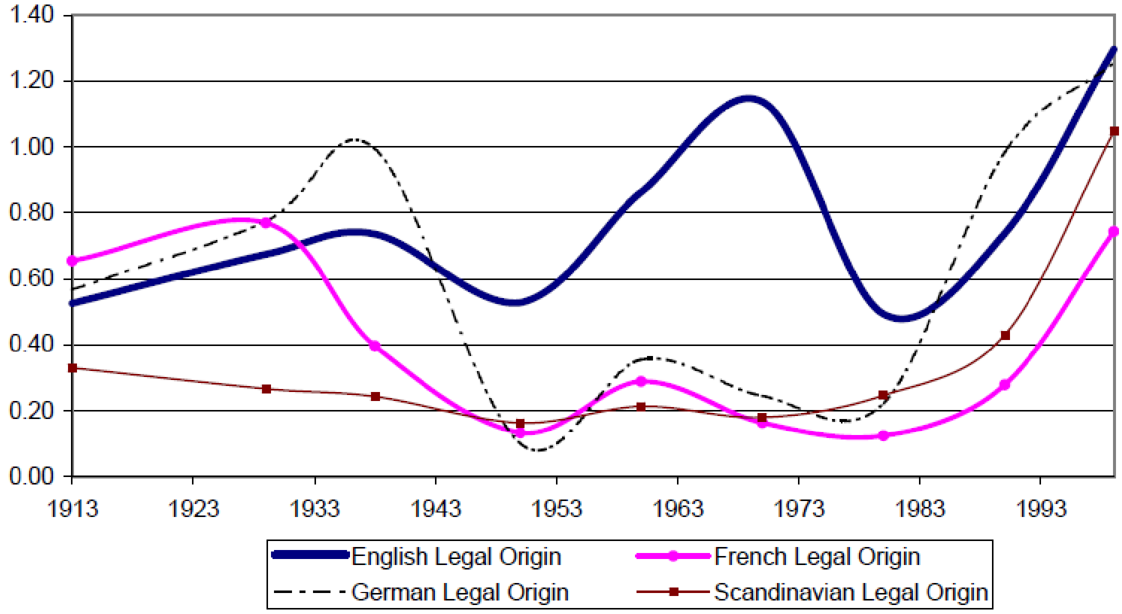

Figure 3: Stock market capitalization over GDP
(source: Rajan and Zingales 2003)

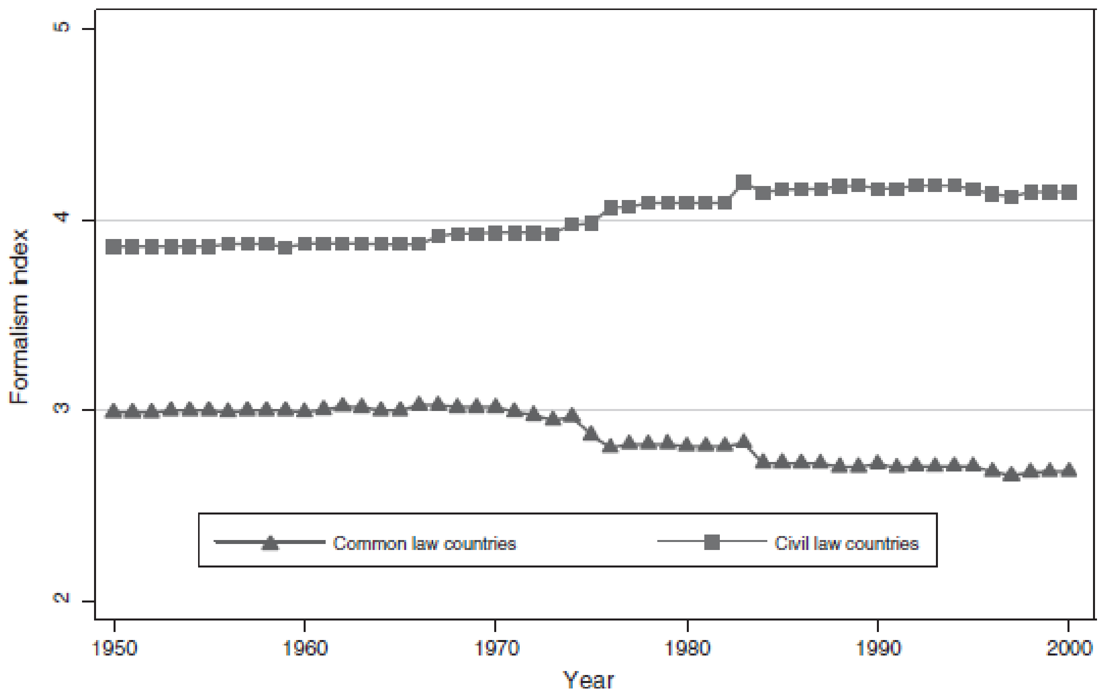

Figure 4: Evolution of formalism across legal origins (1950-2000)
(source: Balas et al. 2009: 147)

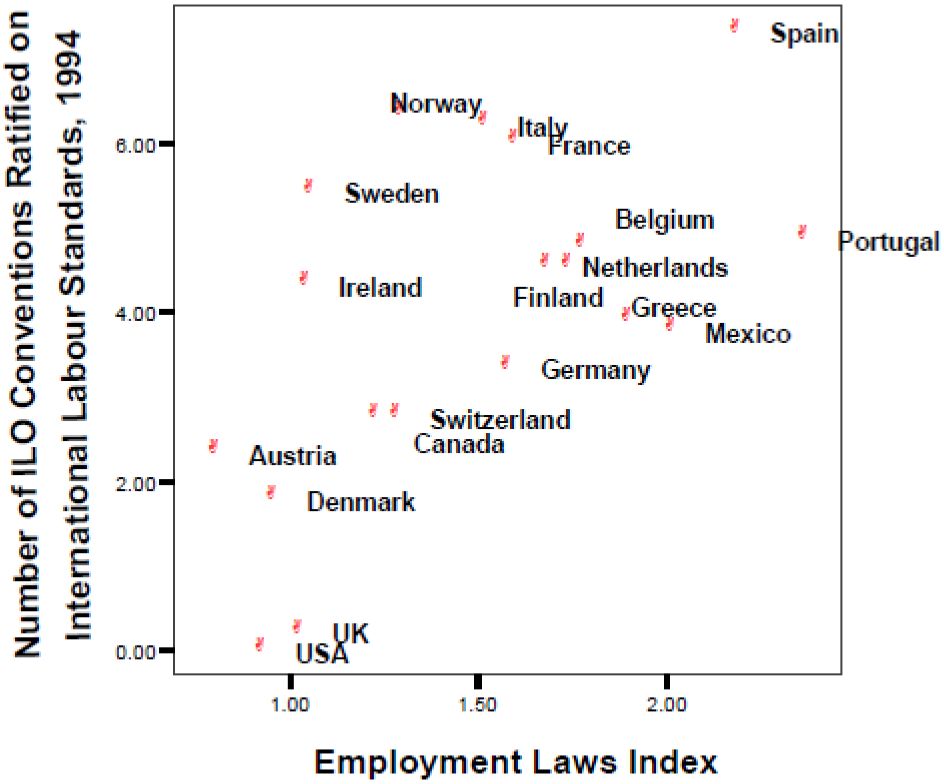

Figure 5. Employment laws index and ratification of ILO labour conventions
(Source: Ahlering and Deakin 2007)

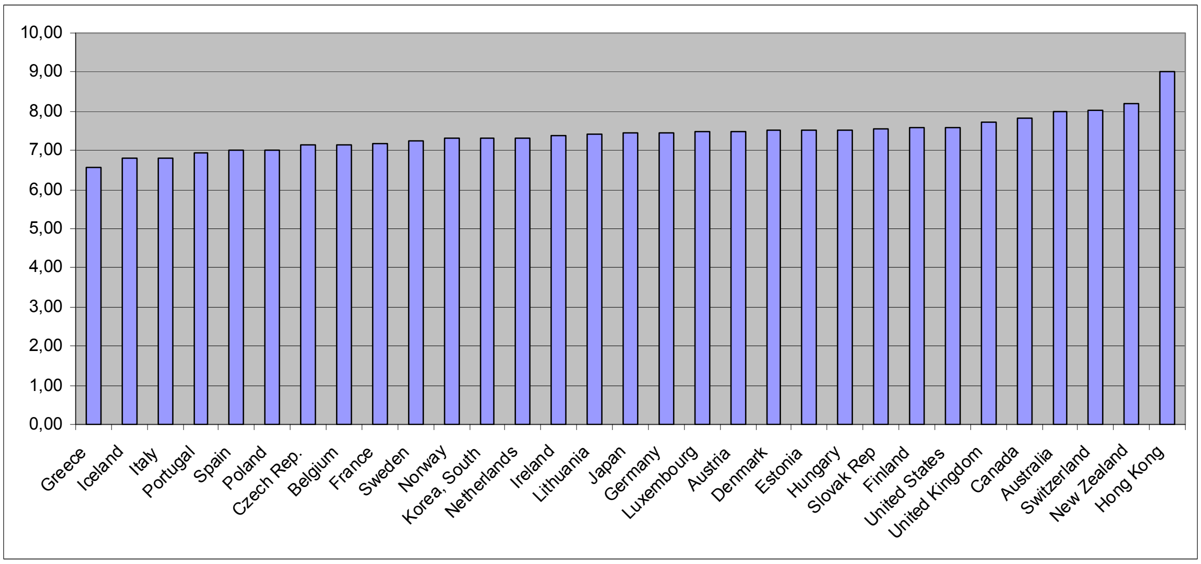

Figure 6: The Economic Freedom of the World Index for 2009
(Source: Gwartney et al. 2011)

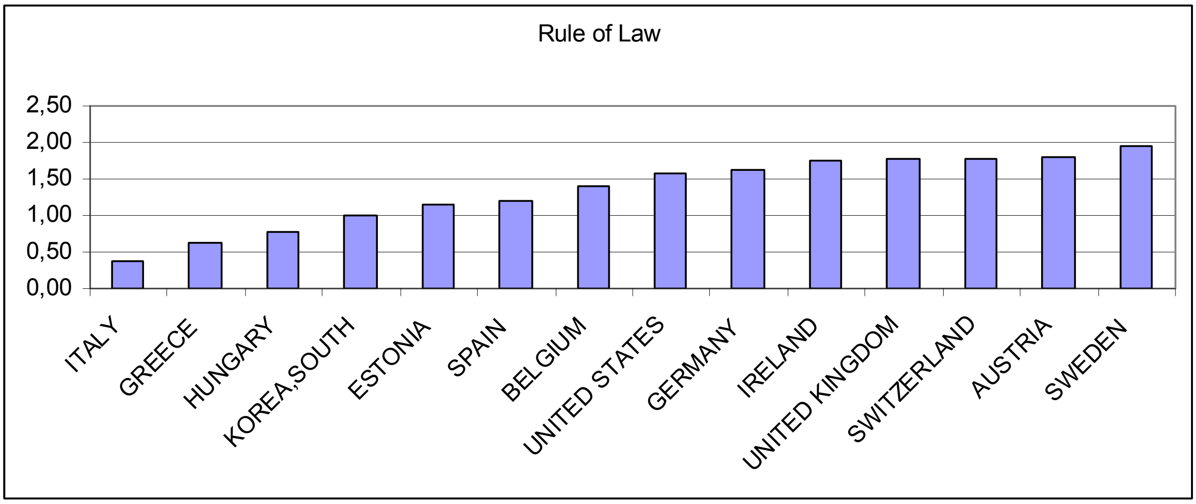

Figure 7: The Rule of Law
(source of data: http://info.worldbank.org/governance/wgi/index.asp)

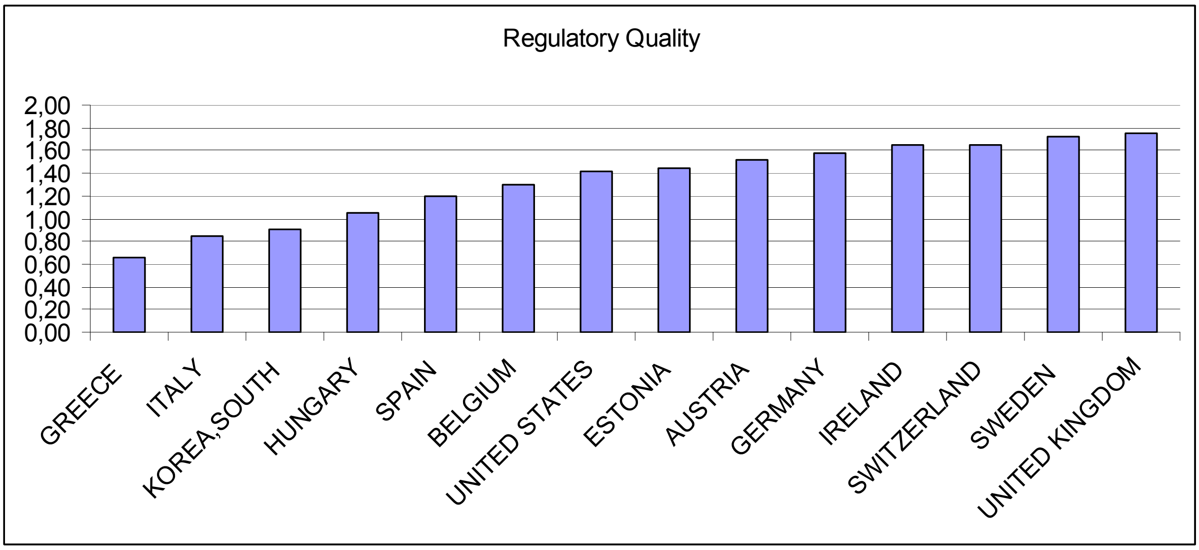

Figure 8: Regulatory Quality
(source of data: http://info.worldbank.org/governance/wgi/index.asp)

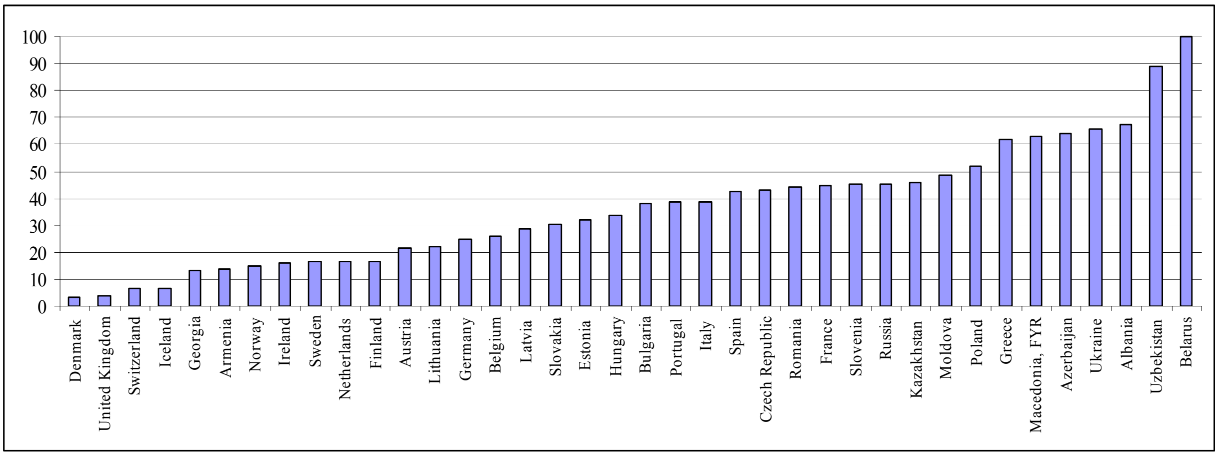

Figure 9. Regulatory distance from the U.S. for welfare states and transition countries (Belarus=100)
(Source: Kapás and Czeglédi 2007)

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