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The Chimera of Competitiveness: Varieties of Capitalism and the Economic Crisis

Andy Green, Tarek Mostafa and John Preston

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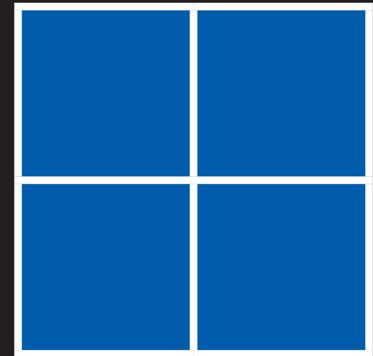

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The Chimera of Competitiveness: Varieties of Capitalism and the Economic Crisis

Andy Green, Tarek Mostafa and John Preston

Abstract

In this paper we assess the different definitions and theories of economic competitiveness at the firm and national levels. First we contrast the theories of classical liberal economists with those of the German historical school of national economics, noting the importance of the historical school for theories of national economic competitiveness. Drawing on the comparative political economy literature on 'varieties of capitalism', we then discuss the factors underlying competitiveness in social market economies, social democratic economies, and liberal economies. These models of capitalism are compared under six headings: labour markets and labour market institutions; financial markets; corporate funding and governance; inter-firm relations; the role of the state; and economic culture and history. In the penultimate section of the paper we discuss how the different models of capitalism have responded to the economic crisis and the impact of the crisis on their economic competitiveness. The paper concludes with a summary of the key points to emerge from the analysis and looks to how the scene may evolve as national economies begin to adapt.

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Introduction: The Chimera

Few economic terms are as over-used and yet so poorly defined as economic competitiveness. In fact, for some the term has become so exhausted, both conceptually and theoretically, that it resembles what Beck (2004) calls a 'zombie category' – that is a concept that has wide resonance but virtually no meaning. Leading economists, such as Paul Krugman (1994), even argue that the term should no longer be used in relation to national economies since it has precise meaning only at the level of the firm. Policy-makers, however, continue to find the term valuable and it remains widely used with reference to national economic performance, albeit without any agreed definition.

In fact, competitiveness can refer to a number of scales including the meso (firm) and the macro (nation and trading bloc) and, perhaps less frequently, to notions of individual 'competitiveness' and discourses of the internationally competitive worker. It is used across a variety of disciplinary contexts to refer to marginalist conceptions of cost and price, forms of political economy and ideological conceptions around trade and marketisation. In policy terms, the interest in competitiveness goes beyond the firm level to the level of regional clusters and national economies. The concept has been used by the OECD, the Institute of Management Development (IMD), the World Economic Forum (WEF) and by economic programmes such as USID, and some countries have even established competitiveness councils, such as Ireland and the US. Competitiveness is indeed a global discourse: some would say a rhetoric that has become an important motivation behind national and international policies. The elasticity of the term makes competitiveness a chimerical concept, different from every perspective from which it is viewed, since it often transcends scale and disciplinary classification. For all that fluidity, in policy discussions it remains ubiquitous.

At firm level, the notion of competitiveness is fairly well understood. It refers to the ability of firms to secure and hold sustainable shares of particular markets for their goods and services. Typically, a distinction has been made between firms which compete on price and those which compete on non-price factors such as product quality, design and capabilities. In contrast, the applicability of the concept of competitiveness to nations has been hotly contested. In a well known contribution, Krugman (1994) pointed out that countries do not compete with each other in the same way that firms do and that, unlike firms, countries do not go out of business if their performance declines below a certain level. This observation

has not deterred various organisations from seeking to define and measure national competitiveness. As we shall see later, Krugman's objections stem from a specific methodological position which is not shared by all traditions in economics.

Much of the modern writing on national economic competitiveness derives from the work of the Harvard Business School academic, Michael Porter. His early work focused on industrial strategies at the firm level. However, in his subsequent writings, Porter increasingly focused on regional and national competitiveness. In 1990, he published *The Competitive Advantage of Nations,* which was highly influential in the US under the Clinton administration and in other countries such as New Zealand and Portugal. He went on to edit the WEF's annual *Global Competitiveness Report*. Other international organisations now publish similar annual reports, such as the IMD with its *World Competitiveness Yearbook*.

These reports seek to rank countries in terms of their economic competitiveness, providing multiple measures of the economic infrastructural characteristics which are said to shape economic performance, as well as various measures of performance itself. Country rankings are determined by the aggregation of scores on a bundle of measures, each of which have no necessary relation to the other, but which are all taken to represent factors which promote competitiveness. Competitiveness tends to be defined now in terms of the economic characteristics which are said to support productivity, value creation, growth and living standards. WEF defines competitiveness:

> …as the set of institutions, policies, and factors that determine the level of productivity of a country. The level of productivity, in turn, sets the sustainable level of prosperity that can be earned by an economy. In other words, more competitive economies tend to be able to produce higher levels of income for their citizens. The productivity level also determines the rates of return obtained by investments in an economy. Because the rates of return are the fundamental drivers of the growth rates of the economy, a more competitive economy is one that is likely to grow faster over the medium to long run. (WEF, 2008, p.3).

In a similar vein, the IMD says that the:

> Competitiveness of Nations is a field of economic theory which analyses the facts and policies that shape the ability of a nation to create and maintain an environment that sustains more value creation for its enterprises and more prosperity for its people. (IMD, 2006, p. 2).

The problem, as many economists have pointed out, is that there is no single measure of the competitiveness of economic infrastructures or of the performance of economies to which the former is said to lead. Infrastructural characteristics are measured in a host of different ways. National economic performance is defined variously in terms of labour productivity, total value creation, economic growth and living standards. However, although clearly related, these characteristics do not directly equate, since many other factors - such as trade competitiveness, employment rates, unit labour costs, working hours and population size - also enter into the relationship. Whilst labour productivity is an important indicator of likely future growth in national output and in living standards, it is not directly equivalent. Labour productivity, average hours worked and employment rates all contribute to per capita GDP so that countries with only moderate levels of labour productivity, such as the UK, can achieve reasonably high living standards through high employment rates and relatively long working hours. On the other hand, countries with quite low employment rates or working hours, such as France, can achieve quite high living standards through high labour productivity. Growth rates also depend on factors other than productivity. The US has had high levels of labour productivity for some decades, but relatively poor growth rates. On the other hand, some East Asian states have had very high growth rates, despite relatively low labour productivity, due, amongst other things, to long working hours, low labour costs and high trade competitiveness (which is partly a function of currency exchange rates). So Singapore has topped WEF rankings in the past, despite its relatively low labour productivity; whilst the US has also topped the rankings despite its relatively low growth rates. What tends to matter most to policy-makers in the end is living standards (measured in per capita GDP at purchasing power parity (PPP) rates), since this is what most electors judge them on. However, the GDP per capita measure tells you nothing about how purchasing power is distributed. Clearly no single measure can capture all that is important in policy terms about economic competitiveness.

These problems of definition and measurement are clearly very frustrating and they often make debates about national competitiveness highly confused. Nevertheless, the term cannot

easily be abandoned since it points to issues which are critical in terms of national policy. In what follows, therefore, we acknowledge that there can be no single definition or measure for economic competitiveness and that competitiveness must be understood at different levels, including at the level of the firm, the region and the national economy. Contrary to Krugman, we argue that national economies are identifiable entities and that they do compete with each other; albeit that they each do this in different ways. Governments explicitly compete with each other, for instance, with fiscal, regulatory, exchange rate, skills and immigration policies for inward investment, talent, innovation and global export shares.

In the first section of this background report we consider, historically, the different schools of thought about economic competitiveness. The second section revues some of the literature on the 'varieties of capitalism,' revisiting the debates considered in the LLAKES Research Paper 1 from a different angle (Green et al, 2009). We use a typology that differentiates between social market economies, social democratic economies and liberal market economies, each of which may be seen to compete in different ways. In the third section, we try to assess the impact of the 2008 economic crisis on competitiveness under the different capitalist systems. The paper ends with some speculation about the future of different models of capitalism in the light of longer range geo-political shifts.

Section One: Competitiveness in Classical Political Economy, National Economy and New Trade Theory

The concept of competition between enterprises was central to classical political economy. Adam Smith was primarily concerned with individual producers and consumers and with firm-level production and competitiveness. As the economic historian, Giovanni Arrighi (2007), has recently reminded us, Smith also provided an outline historical sociology of national economic development, and was certainly concerned with the role of the state in this. He believed that the state had important roles in underpinning the market, not least in relation to the maintenance of individual and national security, the administration of justice, the provision of physical infrastructures for trade and communications, the regulation of money and credit, and the provision of mass education. And despite his nineteenth-century reputation as a doctrinaire laissez-faire, free-trade, liberal, he was not even invariably in favour of free trade, especially when its sudden adoption would jeopardise large sections of employment in any given economy. Nevertheless, his conception of competitiveness was

largely in terms of price competition between firms and he tended to consider state interventions in the economy mainly in terms of removing national barriers to competition (such as monopoly), rather than in terms of enabling measures (such as what we today would call industrial policy). Nineteenth-century liberal political economy tended to exaggerate the laissez-faire aspects of Smith's thinking, and more or less ignored his thinking about the role of the state in the national economy (Arrighi, 2007).

Nineteenth-century liberal political economy relied primarily on deductive reasoning, and used rather little empirical data. The main alternative nineteenth-century tradition was that of the German historical school of economics, founded by Friedrich List. From his historical studies of the course of economic development in different countries, List had concluded that economic growth depended to a large extent on state power, and particularly on the state's role in supporting new manufacturing industries and their exports. For List, Smith had concerned himself too narrowly with the motivation of individuals and the operations of the firm. He had failed to understand the operation of the national economy as a whole, with its various different sectors, and the role of states as agents of national economic development. Smith, argued List, nullified 'nationality and state power' and exalted 'individualism to the position of author of all effective power.' This was, he wrote:

> …nothing more than...a mere shop-keepers'... theory - not a scientific doctrine showing how the productive powers of an entire nation can be called into existence, increased, maintained and preserved - for the special benefit of its civilization, welfare, might, continuance and independence. (Quoted in Greenfeld, 2003, p.205).

List's critique of Smith was undoubtedly exaggerated, and would probably have been more appropriately directed at the doctrinaire mid nineteenth-century liberal political economy associated with the Manchester School in Britain. Nevertheless, there was some truth in the notion that Smith's approach failed to look in detail at the dynamic role which the state had played in economic development, not least in relation to the development of manufacturing and the export of manufactured goods. After all, when Smith was writing, Britain was only just beginning to industrialise, and such changes as were occurring seemed to many to be happening from the bottom-up, rather than as an outcome of state policy (Perkin, 1985).

For List, on the contrary, economic development could not occur organically, without the intervention of state power, particularly for those states, like Germany, which industrialised after Britain. For him:

> …industry and thrift, innovation and enterprise, on the part of individuals, have not yet accomplished aught of importance where they are not sustained by municipal liberty, by suitable public institutions and laws, by state administration and foreign policy, but above all by the unity and power of the nation (List, 2005, p. 132.)

State power, according to List, was even more important than wealth and was necessary to promote the productive capacity of national economies. As he explained:

> Power is more important than wealth. And why? Simply because national power is a dynamic force by which new productive forces are opened out, and because the forces of production are the trees on which wealth grows, and because the tree which bears the fruit is of greater value than the fruit itself. (List, 2005, p.59).

List's focus on the means for promoting industry and economic growth in less developed countries put him squarely in the mercantilist school in terms of trade policy. He observed that most countries which had grown rich historically had used the power of the state (including through military aggression, and maritime superiority) to force their way into foreign markets. He became a celebrated advocate of trade protection as a means for nurturing 'infant industries,' having observed, at first hand, the protectionist policies of Alexander Hamilton, the first Trade Secretary in America. His position on trade protection, however, was pragmatic rather than doctrinaire. He believed that undeveloped agricultural countries needed open trade to secure a foothold in world markets. He also held that free trade in manufactured goods between countries was the ideal where the sectors were relatively equally developed in each country. But protection was essential, in his view, for burgeoning manufacturing industries in less developed countries, at least until these became strong enough to compete on equal terms with foreign rivals. Without it, the powerful states, like Britain in his time, could not be challenged. So for List the 'free trade policies' advocated by the richest nations like Britain were often nothing more than self-interest and hypocrisy:

> Any nation which by means of protective duties and restrictions on navigation has raised up her manufacturing power and her navigation to such a degree of development that no other nation can sustain competition with her, can do nothing wiser than to throw away the ladders of her greatness, to preach to other nations the benefit of free trade, and to declare in penitent tones that she wandered into the paths of error, and has now for the first time succeeded in discovering the truth. (List, 2005, p. 47)

List also believed in the importance of the state's role in the domestic economy, particularly in providing the physical infra-structures and other supports needed for a country to develop 'productive capacity.' He was an early advocate, for instance, of state development of the German railway system and took a deep interest in the development of particular sectors of manufacturing. In this sense he was a forerunner of modern theories about industrial strategy and 'national systems of innovation.' (See Nelson, 1993).

Similar approaches to competitiveness can also be located in the work of the Scottish-Canadian economist, John Rae (Neill, 1999). Rae was sceptical of the approaches of the classical political economists, particularly Adam Smith, as to the generation of national wealth. Rather than considering national output (national wealth) to be an aggregate of individual atomised outputs, Rae considered that there was an element of endogeneity in the creation of national wealth. That is, national polities could be directed towards the creation of the conditions for competitiveness. As Rae explains in the extract below, the state (the legislator) had a role in directing national innovation (or what Rae refers to as the 'inventive faculty'):

> The community adds to its wealth by creating wealth, and if we understand by the legislator the power acting for the community, it seems not absurd or unreasonable that he should direct part of the energies of the community towards the furtherance of this power of invention, this necessary element in the production of the wealth of nation. (Rae, 1834)

Modern proponents of endogenous growth theory are essentially saying the same thing when they insist that technology and technological know-how must be considered as endogenous to

economic growth functions, rather than simply as freely available 'exogenous' factors which are traditionally consigned to unexplained 'residual' in growth accounting studies. (Abromovitz, 1989; Romer, 1996)

There was by no means, therefore, a consensus amongst nineteenth-century economists that competitiveness was purely a pursuit of firms. Indeed, contrary to one popular view of the history of economics, few economists of the time were advocates of a purely individualist perspective on political economy. Even in Ricardo's discussion of comparative advantage in *On the Principles of Political Economy and Taxation* (2004) there was a discussion of the interactions between states and firms in producing (what would come to be known as) a 'Pareto optimal situation' through trade.

Ricardo's theory of comparative advantage argued that if there was a difference in the opportunity cost of producing one commodity rather than another in two countries then both countries could increase their welfare through trade, even if one country had an absolute advantage in the production of both commodities. The conclusion drawn by Ricardo was that each country should specialize in the commodity in which it had a comparative advantage in producing (that is compared with other goods it might produce), and should trade this abroad for the other. In Ricardo's definition, comparative advantages comprised national resources, geographical endowments and historically evolved technologies that allowed a country to excel in the production of a particular good. Therefore comparative advantage was not endogenous to firms, but rather the result of historically evolved institutional processes. Additionally, Ricardo (2004) considered trade in the context of accumulation of capital, innovation, tariffs / quotas, colonial policies and the use of military power. Many of these were national rather than firm level strategies.

There are well known problems with the Ricardian theory of comparative advantage, including the assumption that factors of production are immobile between countries (Ulrich, 1983) and that countries do not super-exploit the labour of those in other countries (global labour arbitrage) (Chang, 2002; 2008). In addition, Belloc (2006) considers that empirical studies find that there is little evidence for international trade based primarily on factor endowments. Even where tariff and trade barriers are barely significant, the mere existence of national borders appears to depress the volume of trade below that predicted by the

Ricardian model. Also, high income and capital abundant countries tend to trade with each other rather than with low income labour abundant countries.

Furthermore, a wide empirical literature on growth has shown that the possession of natural resources is not a guarantee for development. In fact, in some cases natural resources are negatively correlated with growth.[1] This phenomenon, sometimes called the 'resource curse,' occurs where the abundance of natural resources - especially non-renewable minerals and fuels - causes an appreciation of the real exchange rates and of wages, and thus leads to a loss in the competitiveness of manufacturing sectors. In addition to this, revenues from natural resources are likely to be exposed to market swings (the prices of fuel drastically dropped after the 2008 recession), and can even be associated with government mismanagement and corruption. Indeed, there are interactions between the 'resource curse' and the quality of institutions which can exacerbate or reduce the effect (Mehlum, Moene and Torvik, 2006).

However, the major limitation of the comparative advantage theory is that it does not explain how comparative advantages arise in the first place. In other words, comparative advantages can be fostered (as is implicit in Ricardo's work on capital accumulation) and they are not necessarily the result of absolute geographical or natural resource advantages. In today's global economy, with its advanced systems of transport and communications, multinational companies can easily disaggregate the different elements of the production chain so that each part is located where conditions are most favourable. Consequently, the spatial aspects of comparative advantage have become less determinant. Competitiveness is bound less by natural resources and geographical endowments, and becomes more about capital accumulation (both physical and human), the formation of skills and technology transfer and making the most strategic and efficient use of the global division of labour (Green et al, 2007). Comparative advantage can be constructed. For instance, South Korea in the 1970s did not have any visible comparative advantage in ship building, and there was a global glut of large ship production at the time. However, the South Korean state made massive investments in skills and technologies, licensing much of the technology from abroad. This paid off, and today South Korea is one of the world's leading ship builders (Amsden, 1989).

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[1] Sri Lanka would be a classic case – abundant estate agriculture diminished the incentive to develop manufacturing.

As the above discussion shows, there is a difference between comparative advantage and competitiveness:

> Comparative advantage is theoretical, explaining trade and optimal welfare in an undistorted world. Competitiveness, on the other hand, relates to the observable. If firms and industries cannot survive by selling at the going price, they are not competitive. If they are able to survive and increase market share, they have become more competitive. Note, however, that an increase in competitiveness of an industry, possibly the result of government support, does not necessarily imply an increase in national welfare. (Sharples, 1990, p. 1279).

Problems with the Ricardian theory of comparative advantage led to the development of a 'New Trade Theory' that attempted to account for market failures, such as imperfect competition, and for positive externalities, such as the increasing returns to scale (Krugman, 2002). New Trade Theory alone (particularly its increasing returns to scale argument) could not account fully for the biases in the volume and direction of trade, but when combined with findings from institutional economics, hybrid theories of trade could provide a more adequate conceptualisation which was consistent with empirical data.

In a wide ranging survey of institutional economics and international trade, Belloc (2006) considers that institutional evolution and trade advantage are reciprocal and complementary processes. She argues that there are three areas of international trade in which these complementarities are particularly important: in economic exchange; in the industrial organisation process; and in financial markets. In economic exchange, the evolution of institutions is necessary due to transaction costs, imperfect information, the need for contract enforcement, and general uncertainty. Institutions evolve in a path-dependent fashion to reduce the 'sunk costs' associated with developing exchange relationships between trade partners. In terms of industrial organisation, aside from the well known relationships between innovation and trade, ownership structures are considered to develop with the 'thickness' of trade (that is the probability that a firm will find, in a given period of time, another domestic or non-domestic agent with whom to trade). Where production is integrated between countries then an increase in the 'thickness' of trade tends to lead towards more competitive conditions (McLaren, 2000). Finally, and most salient given the current credit crunch, financial market imperfections, such as imperfect information and moral hazard, can skew

the direction of comparative advantage with, for instance, the use of high risk product portfolios and market strategies.

As Belloc shows, the contribution of institutional economics to the study of competitiveness is twofold. Firstly, it considers institutions not simply as state or market interventions which mitigate against or benefit from externalities. Institutional and trade complementarities may have developed originally for this reason, but have subsequently become 'locked into' developmental patterns where they no longer serve only this purpose. Secondly, institutional economics considers the interdependence of institutions with the state rather than considering them to be determined by state policy alone, as in more 'statist' versions of the varieties of capitalism literature. An example of this would be Thelen's (2004) analysis of skill formation regimes where vocational training institutions have developed not only through path dependency and state direction, but also through struggles between various forms of labour and capital (and indeed within labour and capital) and regional innovations in skill development.

Theories of National Economic Competitiveness in Historical Perspective

Placing theories of national economic competitiveness in historical perspective clarifies a number of key issues in the debates that have raged over this concept. The first issue is whether countries do in fact compete economically in any meaningful sense. The second is whether they compete in the same ways and for the same objectives.

Tracing the development of different schools of economic thought shows quite clearly the differences in perspective over whether countries compete economically. For classical liberal economic theory, it is firms which compete, not countries. It is individual firms which create wealth, not states, and states cannot be counted as direct economic actors. The historical school of national economics – and the institutional economics and the varieties of capitalism schools which lie partly in this tradition – disagree. Within the latter traditions, governments act as economic agents both through policies which regulate internal markets, production strategies and external trade, and, at times, directly through state enterprise. States not only support the generation of wealth through firms; they also on occasions act as direct wealth creators through state industries and state investment. States compete with each other directly

for foreign investment, for access to foreign markets and world trade shares, and for ownership of scarce resources.

From the point of view of the national economics tradition, much of the critique of national competitiveness theory made by Krugman in 1994 appears nugatory: it is more methodological and epistemological rather than substantive. As an economist in the liberal tradition, Krugman is essentially a methodological individualist. He believes in principle that only individual firms can compete because he regards national economies as mere abstractions or aggregates, which, being without singular identity and agency, cannot by definition compete. In fact his demonstration of this only holds true if one accepts the *a priori* assumptions of the methodological individualist position.

Krugman's *Foreign Affairs* article (1994) criticized Bill Clinton's declaration that a nation is like 'a big corporation competing in the global marketplace.' According to Krugman, nations are not comparable to corporations. When a corporation is uncompetitive, its market position is unsustainable, and usually the firm is incapable of keeping its contracts, or paying its employees and shareholders. Hence, the firm can become bankrupt. Countries, on the contrary, cannot go bankrupt, according to Krugman. However, in many of the more state-led economies, for instance, in Singapore and China, politicians and the general public do often refer to their countries through analogies with corporations. The popular terms 'China inc.' and 'Singapore plc' are rather common ways in which this is signalled. Furthermore, countries can effectively go bankrupt, although not in the narrow legal meaning of this term applied to firms. When they cannot pay their debts, as in many recent cases, they may have to go to the IMF for financial assistance. This invariably involves accepting terms, sometimes including the liquidation of assets, which limits their autonomy as states. In most cases, states do not cease to exist, as companies do when they liquidate, but national insolvency can lead eventually to the break-up of states or to various forms of regime change.

Krugman argues that countries do not compete directly in the market like, for instance, Coca-Cola and Pepsi, because they do not sell identical products and because their economies are interlinked – one country's exports being another country's exports. The contrast, however, is hardly decisive for the argument, unless it is denied that states can be direct economic agents. States are often involved in promoting sales of their firm's goods in precisely the same product markets, as for instance with luxury vehicles, computer chips, or computer

games. Furthermore, whilst the economies of different countries are interdependent, so are competition strategies of many firms, particularly those in sectoral clusters where cooperation over technology and knowledge transfer remains as important to the success of individual firms as direct competition with another firm in the cluster.

From the point of view of national and institutional economics, therefore, many of the criticisms of national competitiveness made from the classical liberal tradition are due largely to *a priori* methodological differences. However, there is also a substantive dimension to the critique offered by Krugman and others, which relates to the inconsistent definitions used by proponents of national competitiveness. As mentioned earlier in this paper, organisations with an interest in competitiveness have variously offered, as summary measures of competitiveness, indicators as disparate as labour productivity, GDP growth, trade surplus and living standards. We have already suggested that increases in labour productivity at the national level cannot be equated directly with either living standards or GDP growth, since other factors, such as employment rates, labour costs, hours worked and population growth, enter into the equation. In spite of the many assertions about a straightforward relationship between competitiveness and productivity (such as that expressed by the WEF), relative competitiveness at firm or national level may not always correlate with relative productivity. This is because there are numerous things that firms could do to improve productivity which they may or may not consider cost-effective or likely to improve their competitiveness.

Consider the standard ways in which the two terms are operationalised by researchers.[2] For statistical purposes, the OECD (2001) defines competitiveness as 'a measure of a country's advantage or disadvantage in selling its products in international markets'. One common proxy measure of cost competitiveness across countries is the average labour cost per unit of production at current exchange rates. By contrast, average labour productivity (ALP) is typically defined as the average output per unit of labour input (for example, per worker-hour). Given these definitions, it is clear that an increase (reduction) in ALP will only translate into improved (diminished) cost competitiveness if there are no offsetting changes in market exchange rates or in nominal labour costs per worker-hour.

[2] The following observations are provided by Geoff Mason at the National Institute of Social and Economic Research.

There are thus many circumstances in which firms may refrain from taking actions which would improve ALP, but would not, in their judgement, enhance their competitiveness. In a simple growth model with two production inputs (physical capital and labour), growth in ALP over a period of time can be decomposed into the following three elements (Jorgenson and Stiroh, 2000):

- Growth in physical capital-intensity (ie, physical capital per unit of labour input)
- Growth in the quality of labour inputs (eg, through workforce training)
- Residual growth in Multi-Factor Productivity (MFP) - the increase in output that cannot be attributed to increases in the quantity and quality of physical capital or labour (for example, growth in output deriving from more efficient deployment of existing resources).

Increases in physical capital-intensity (or any kind of automation) will always offer scope for increasing ALP, but whether or not it is cost-effective for firms to pursue this strategy depends (among other things) on the relative costs of physical capital and labour with which they are confronted.

The same applies to skills upgrading. Firms may or may not consider additional investments in improving labour quality to be likely to enhance their cost competitiveness. Their decisions regarding training will depend in large part on their evaluation of the costs of doing so versus the costs of not doing so (for example, the likelihood of losing market share to higher-skilled competitor firms). The only way in which firms can improve ALP with certain benefits for cost competitiveness regardless of market context is through increases in MFP (for example, reductions in wastage and unplanned downtime or shortening of lead-times for new products or process innovations).

Thus, in any one country, it may be possible for firms in some sectors to remain competitive even with relatively low levels of ALP because their labour costs are relatively low or exchange rates are in their favour. Conversely, some enterprises may perform relatively well on ALP, but suffer in competitiveness from relatively high labour or other costs or from unfavourable movements in exchange rates. Whether it is feasible for a majority of firms in any country to pursue a high-productivity business strategy in a cost-competitive way will

depend heavily on the specific nature of that country's product and labour markets and other characteristics of the institutional environment within which they operate.

One of Krugman's contributions has been to illustrate how trade competitiveness cannot be directly equated with other indicators of competitiveness such as growth or living standards. As Krugman argues, trade performance is directly related to exchange rates, and if a country can get its exchange rate right, then no matter how uncompetitive it is in other ways, it can still maintain a favourable trade performance. However, trade competitiveness caused by a devaluation of national currency may be negatively related to living standards where domestic consumers have, as a consequence, to pay higher prices for foreign imports. This is obviously very relevant in a globalized economy. Furthermore, Krugman argues that living standards are often more related to domestic factors such as productivity growth rather than to foreign trade, especially in countries like the US where international trade represents a meagre fraction of the GNP (10%).

However, we must also add that the relation of trade performance to living standards varies substantially across countries. While in the US foreign trade comprises only a small part of GNP, in other countries, particularly now in East Asia, it accounts for substantially more. Furthermore, while it is the case that trade expansion due to low exchange rates may not improve living standards in the short term, it way well contribute in the longer term. For many years, Japan subsidized its exports in various ways, including through an undervalued yen. Domestic consumers were effectively paying for trade growth through the increased price of imports and through the higher domestic prices Japanese companies charged to subsidize the below-cost foreign sales (Perkin, 1996). However, in the longer term, countries in East Asia which have used such strategic trading policies to increase their shares of global markets have indeed grown their economies and seen rising living standards (Green et al, 2007).

To recapitulate, four important points have emerged from these historical debates which have shaped subsequent discussions about economic competitiveness. Firstly, economic competitiveness applies, in different ways, at both the level of the firm and at the level of the national economy. Secondly, firm-level competitiveness and national competitiveness are deeply intertwined. Thirdly, there can be no single measure of economic competitiveness, at

least at the national level. Lastly, countries, like companies, compete in different ways for different short and long range goals.

The standard contrast between competition on price and competition on quality can illustrate all these complexities. Firms may chose to compete on the quality of their goods and services, if they can sell them at a sufficiently high price in large or niche markets to make a profit despite high production costs. High quality outputs may require heavy investments in machinery, research and development (R&D) and training, but if productivity gains over the long term compensate for the high level of investment and high labour costs, the company may remain competitive. At the national level, the same logic may apply if national policy supports high performance firms to achieve levels of productivity and product quality which enables them to compete long term in the market on this basis. Germany has managed to compete on this basis for many years, with a large number of firms in a wide variety of sectors producing high quality, high priced products for niche export markets. Streeck refers to this as 'diversified quality production'. (Brown et al, 2001; Streeck, 1989; 1997).

On the other hand, firms in particular contexts may decide that they can compete more effectively with low cost, lower quality products, because they are in strong positions in the market for these products. Improving quality through increasing investments in skills and R&D may not be seen as a viable strategy if the potential market for the higher quality goods cannot sustain the prices that would compensate for the increased outlays on research and labour costs. Likewise, improved productivity may not be an attractive option. An increase in labour productivity will only translate into improved cost competitiveness if there are no offsetting increases in labour costs per worker hour.

Again the same basic logics apply at the national level. Countries, particularly at an early stage of development, may decide to encourage firms to compete on price in low cost markets, if low labour costs represent a major source of comparative advantage. In the short term, the ambition may be largely to gain market share in exports, even at subsidized rates which may add little to domestic living standards. However, in the longer term, as has been the case in many East Asian states, governments will encourage firms to use their export market positions as a platform for developing for more profitable export industries, through moving into higher value-added products and services, which may eventually feed through into higher wages and living standards. Typically, as new national competitors with even

more competitive labour costs emerged in the low cost export goods markets, East Asian states had little alternative but to encourage their industries to move up the value-added chain if living standards were to be improved. This usually involved governments investing more heavily in R&D, knowledge and technology transfer, and education and training (Brown et al; 2001; Green et al, 2007).

In these - admittedly stylized - examples different competition strategies are employed both at both firm and national levels, the success of which will partly depend on how well the national competition strategies support the dominant firm strategies. Firms - or the owners of firms - are more or less aiming at the same ultimate goal: to make sufficient returns on their investments for it to be worth staying in business. States, on the other hand, may have different short and long-term objectives. Raising per capita GDP will be an ultimate objective for most governments whose legitimacy depends in some degree on popular perceptions of their success in promoting improved living standards. However, in the shorter term, the dominant objective might be trade competitiveness (measured in trade surpluses) and growth (measured in GNP), rather than improvements in living standards (measured in per capita GDP). Each of these measures tells us something about the outcomes of competition strategies, even if none of them alone provides the whole picture. In a dynamic perspective the final measure of competitiveness strategies will be how far in the long term they promote sustainable improvements in living standards.

Section Two: Competitiveness in Different Varieties of Capitalist Economy

The tradition of writing in comparative political economy, which analyses the different ‘varieties of capitalism,’ draws heavily on the historical tradition of writings on national economics and institutional economics, as well as national innovation theory and comparative industrial relation theory. It is a relatively inter-disciplinary field of research which is more concerned with qualitative understanding of how different kinds of economies function and compete than with developing formal models as in neo-classical economics. It has been explicitly concerned with issues of competitiveness at firm, cluster and national levels and has largely avoided the problems of the Porter-inspired league tables approach by not seeking to provide single definitions of competitiveness. In fact, the explicit aim to compare and contrast the different national systems of competitiveness militates against single definitions and leads to a more open approach that uses various measures of national

economic performance. One of the strengths of the literature is its commitment to analysing competitiveness at different levels, and, more importantly, to revealing the articulation between firm-level and state strategies on which competitiveness partly depends (see, for instance, Hall and Soskice, 2003; Streeck, 1989).

One of the analytical strategies employed in comparative political economy writings has been to develop different 'models of capitalism.' These attempts – in the Weberian manner of ideal types – to capture the essential characteristics of a number of cases which are seen to be sufficiently similar and distinctive to constitute a particular type. Inevitably, a major point of contention in this literature relates to the logic behind the classification of economies and over the number of different varieties of capitalism. For instance, Hall and Soskice (2001) adopt a binary approach contrasting liberal market economies (LMEs) with coordinated market economies (CMEs). Many other writers in the field have used similar binary models. Dore (2002) contrasts the 'relational capitalism' associated with Germany and East Asian states, with the 'stockholder capitalism' of the UK and US. Hutton (1995; 1999; 2002) contrasts the 'shareholder capitalism' of the liberal market economies with the 'stakeholder capitalism' of the social market economies in northern continental Europe, including Scandinavia. The economies of southern Europe are seen as permutations of the social market or stakeholder model. Some approaches find at least three dominant models in the West (Green, Preston and Janmaat, 2006; Schmidt, 2002; Pontusson, 2002). Pontusson (2002), for instance, argues that the Nordics cannot and should not be considered as coordinated economies because of a number of unique characteristics they retain. Schmidt (2002) identifies three varieties of capitalism: Market Capitalism, Managed Capitalism and State Capitalism, which includes East Asia and France. Amable (2003), on the other hand, further subdivides Europe into Nordic, Continental and Mediterranean models of capitalism. Finally, Casey (2007) depicts some variations within the LME model that differentiate the UK from other liberal economies such as the US.

The main aspects that have been used in the literature to differentiate capitalist systems are the following: labour market institutions and regulation, inter-firm connections, the role of the state, taxes and spending, welfare, the nature of competition (quality vs. price), strength of labour unions, education and training, corporate governance, innovation, and corporate funding. The interaction between all these aspects defines how competitiveness functions under the different systems.

In what follows, we will describe factors underpinning different forms of competitiveness liberal market economies (LMEs), social market economies (SMEs), and social democratic economies (SDEs). These regimes are in accordance with the typology developed by Pontusson (2008) and mirror the 'regimes of social cohesion' developed in an earlier LLAKES research paper (Green et al, 2009). The liberal market economies are taken to include the UK, the US and Ireland. The social democratic economies are taken to include the principal Nordic states, not including Iceland. The social market economies are taken to include Germany, Austria, Belgium, the Netherlands and France, but not the southern European states whose economies have quite distinctive characteristics. It should be noted that SMEs and SDEs bear some resemblance on a number of aspects.

Labour markets. The labour market is one of the most important aspects on which capitalist regimes differ. For instance, SMEs (mainly Germany) have maintained a combination of external competition, based on the production of high quality goods in several niche industries, and a normalized high wage (Streeck, 1989). This organization of the labour market is tightly related to the German apprenticeship system which allows for the provision of high quality training at a relatively low cost and for mobility between firms (Marsden and Ryan, 1995). Furthermore, the coordination between the two provides opportunities for those graduating from low status vocational schools to acquire skilled qualifications and to enter well paid jobs. In SMEs, employees are protected by various collective agreements won through bargaining by strong labour unions and the control asserted by employees through the codetermination system (Pontusson, 2008). On the other hand, in LMEs, the labour market is flexible and lightly regulated; a situation that may contribute to firms maintaining their cost efficiency and competitiveness in the short term. In recent years, some countries adopted new legislation that favoured employment security. For instance, in the UK, the Labour Government introduced the New Deal in 1998 with the objective of moving people from welfare to work through better education and training. In addition to this, the Labour Government accepted a number of proposals previously rejected by the Conservatives such as the national minimum wage and the EU's working time directive. Even so, the labour market was kept more flexible than in continental Europe in order to promote the high employment rates and labour market efficiency which were seen to give a competitive edge British economy.

In SDEs (eg in Denmark, Finland, Norway, and Sweden) the general rules governing employment are based on contractual freedom, even though employers do not have the complete freedom of dismissal. The concept of 'flexicurity', describing the combination of contractual flexibility and welfare protection in Danish labour market arrangements in particular, was coined by social democratic governments, and was based on three dimensions: labour market flexibility, social security, and active labour policies to promote labour mobility and training (European Expert Group, 2007). As indicated by Pontusson (2008, p. 8), active labour market policies in social democracies differ from those in neo-liberal economies by being incentive orientated (e.g. obligations for the unemployed) rather than being punitive. In addition to this, most SDEs have adopted child-centred social investments that provide several measures that support families with children. These measures include public childcare and family allowances, and were designed to support female employment, fight child poverty, and ensure a higher level of gender equality.

Corporate funding and financial markets. In terms of corporate funding, LMEs and SMEs are very different. In SMEs, corporate funding relies heavily on debt finance. In fact, many firms are funded more through long-term finance from 'main' banks than through the stock market, even though in recent years these finance patterns are changing and capital is being liberalized. As noted by Dore (2000), most firms deal with a large number of banks, but only one of them is recognised as the main bank. This bank will provide funds for investment and will keep track of firms' performance and problems and might influence any corporate decisions. It may even be called upon, in the case of a bankruptcy, to operate a restructuring rescue that may lead to a loss.

In contrast, corporate funding in LMEs is dominated by the stock market. The shareholders' general meeting is the supreme organ that appoints CEOs and monitors performance. The main concerns for a firm in LMEs are the maintenance of high prices for its shares, the delivery of profits (dividends) to its shareholders, the maintenance of performance in the short term, and the protection of a firm's identity and reputation in the long term. In contrast, in SMEs, firms' objectives include maintaining market share, value added per employee, sales growth, and employment security. The differences between LMEs and SMEs have major implications for competitiveness. In SMEs, firms are likely to sacrifice short term profitability and to cut excess costs, in the case of a recession, in order to ensure that market share, relations with suppliers and clients and employment security are preserved. In fact,

firms can disappoint their shareholders by reducing dividends when hit by an economic crisis or when a long term investment is to be made. This behaviour will certainly lead to a fall in share prices. However, this would not necessarily be seen as disastrous since financing is done through relational banking and since the threat of hostile take-overs are reduced by the crossholding of shares, the issuance on non-voting shares, and laws regulating take-overs (Hall and Soskice, 2001; Dore, 2000). On the other hand, a profit sacrifice would not be possible in LMEs since the main objective of a firm is to keep high prices for its shares even if this leads to the reduction of the number of employees or to a change of suppliers in a quest for minimal production costs (Hutton, 2002).

Inter-firm relations and business sophistication. Firms in SMEs tend to favour relational trading and the construction of long-lasting commitments with their partners (clients, suppliers, and banks) (Crouch, Finegold and Sako, 1999; Dore, 2000). This long-term commitment may even operate to the detriment of short term profitability as mentioned in the previous subsection. In LMEs, inter-firm relations are dictated by short-term profitability: firms are generally on the look out for a better deal and they are likely to switch suppliers in order to minimize their production costs, preferably without damaging their relations with their old suppliers in case they have to switch back (see Dore, 2000, p. 36). In contrast, firms in SMEs favour long-term commitments which generate mutual obligations. The supplier has to fulfil his or her obligations by ensuring on-time delivery, by cutting excess costs in the case of a recession, and by speeding the process of developing new products. In return, the firm will ensure that the supplier will not be abandoned because the firm found a slightly better deal elsewhere. Dore notes that Japanese firms are likely to have several suppliers and, in the short term, they only shift the volume of supplies required from each one of them. An increase in the volume of supplies would be considered a reward for higher performance and the reverse is true for a decrease. Moreover, firms may have a formal ranking of suppliers based on their performance. In Dore's words: 'the higher the ranking awarded, the greater the security of order in the case of a crisis' (Dore 2000, p. 37).

In addition to this, inter-firm relations in SMEs are characterised by the existence of cooperation between competitors which usually takes the form of cross share-holding. The cooperation between firms is supported by the state for a variety of reasons. First, it limits the possibility of hostile takeovers and favours agreed mergers. Secondly, it allows firms to benefit from technology transfers and to cooperate in nursing the weakest firms through

recession. However, it should be noted that collusion is not allowed to exceed a certain limit, and public institutions such as the Japanese Ministry of International Trade and Industry (MITI) would intervene in order to regulate cooperation and to limit monopolistic behaviours. Furthermore, competition in SMEs is fiercer in some sectors where demand is expanding and in consumer industries producing for anonymous markets. (see Dore, 2000, p. 41).

By contrast, LMEs have always had a sceptical and even hostile attitude towards cooperation between firms. This is reflected in the variety of anti-trust and competition laws used in these countries. These laws have in general three objectives. Firstly, they try to prohibit any collusion or practice that would restrict competition between firms and hence would lead towards the emergence of oligopoly and cartels. Secondly, they seek to regulate and supervise any merger between firms that may have a negative effect on competition. Thirdly, they act to prohibit any abuse of market power by dominant firms. Finally, they seek to control any practices, such as predatory pricing, dumping, and price gouging. In the US, anti-trust laws were in place as early as 1890 (Sherman Act) and 1914 (Clayton Act). However, since the 1980s, some of these laws have been relaxed. In Europe, healthy competition was seen as essential for the creation of the common European market. In this vein, Article 81 of the Treaty of Rome prohibited any agreements or concerted practices which prevent, restrict or distort competition. However, exceptions to the rules were made if the collusion gave consumers a fair share of the benefit and did not include unreasonable restraints to competition.

The role of the state. SMEs, LMEs and SDEs are very different in terms of the role assumed by governments, even though some countries bear some resemblances. In SMEs and SDEs the state is seen as a regulator and even, sometimes, as a facilitator. In contrast, LMEs believe in ‘small states’ (Casey, 2007) which minimize their impact on the economy through low taxation and moderate welfare. However, countries such as Germany and the US have some similarities. For instance, both are federal states where the capacity for direct intervention is curtailed vertically by the fragmentation of authority between federal and local governments (Länder and states), and horizontally between the federal government and some independent entities such as the Bundesbank and the Federal Reserve. This fragmentation can make political change difficult and slow (Streeck, 1995).

Despite these similarities, SMEs and SDEs differ from LMEs. In SMEs and SDEs, the state offers firms and industries a wide range of support and high public spending on infrastructure, research and development. The state also spends a considerable share of its GDP on social protection. However, what distinguishes SDEs, according to Pontusson (2008, p.9), is the principle of integrated social insurance, as distinct from occupationally segregated systems, and the reliance on the public sector in the provision of services (see discussion also in Green, Janmaat and Han, 2009). In addition to this, a distinctive feature of SDEs is the heavy public investment in comprehensive education which sets them apart from the educationally-selective German-speaking countries. In fact, the Nordic countries have one of the highest levels of public spending on primary and secondary education among the OECD countries combined with high performance scores in standardized tests and limited inequalities (Mostafa, 2009). However, it should be noted that some countries traditionally classified as SMEs also have comprehensive schooling (Japan and France), even though comprehensiveness is not as far-reaching as in the Nordic countries.

In terms of fiscal policy, these capitalist regimes are also different. SDEs are not distinguished by a commitment to deficit-spending policies as in their SMC counterparts (Pontusson, 2008, p. 4). In fact, restrictive fiscal policies have always been seen as a method of controlling inflation and wage drifts in firms that enjoyed excess profits by virtue of solidaristic wage bargaining. In LMEs, restrictive fiscal policy was the major hallmark of governance. For instance, in its first term of office in the UK, New Labour rejected Old Labour policies of heavy spending followed by budget cuts, and adopted policies similar to those of the Conservatives. Two fiscal rules were implemented. First, government would only borrow for investment and not for consumption. Secondly, the public debt would be kept below 40% of the GDP. Recent attempts to counter the economic recession through large fiscal stimulus packages have, of course, required the suspension of these rules.

Codetermination. A distinctive feature of SMEs is the possibility for employees to participate in the management of their company. Usually, employees are organized in works councils formed by elected representatives who act as intermediaries between employees and senior management. These representatives are given seats on a board of directors or supervisory board. By contrast, in most LMEs employees have no role in the management of their company. As Dore (2000) indicated, in SMEs, a firm is seen as a community of people which has an identity that is not a simple aggregation of that of individuals and employees;

while in LMEs a firm is the place where one earns a living, and where one might or might not have an agreeable social life. The firm is seen as a legal entity to which an employee has obligations which are defined by the employment contract. When it comes to SDEs, codetermination is not one of their distinctive features, although some larger firms do operate forms of codetermination in some Nordic countries.

As noted by Pontusson (2008), Germany's codetermination laws were enacted in 1951 by the Christian Democrat Government. By contrast, in the Nordic countries, the labour movement became interested in codetermination by the beginning of the 1970s, and the main distinction of the social democratic approach to codetermination lies on whether codetermination rights should be vested in local unions or works councils such as in Germany. The UK also flirted with codetermination in the late 1970s. In fact, Harold Wilson's Labour Government condoned the radical proposals for industrial democracy made in the *Bullock Report* (Bullock, 1977). This report was a response to the European Commission's fifth directive on worker participation. It authorized a split of the board of directors and an increased influence for trade unions which were given a direct role in electing the management of firms. It was even more radical than the procedures used in Germany, where shareholders were given a slight privilege in managing their firm. However, the proposal was never applied since the Labour Government lost the election after the 'Winter of Discontent' in 1979, and subsequent Thatcherite governments had little interest in industrial democracy.

Trade Unions and wage bargaining. One of the most important aspects on which capitalist systems differ is the role of trade unions. In LMEs, labour market flexibility has always been the hallmark of the successive governments. For instance, in the UK, even after the return of Labour to power in 1997, unions were precluded from having a privileged position in deliberating over policy (Casey, 2007). In fact, the unions were severely weakened during the conservative era between 1979 and 1997 and the return of Labour did not radically change this situation. Under Labour they were considered as interest groups that were supposed to cooperate with management in improving the situation of workers and in safeguarding the competitiveness of British economy.

By contrast, in SMEs trade unions have generally retained a strong economic and societal role. This allowed unions to act as publicly enabled associations (as defined by Streeck, 1995, p. 11), and to have an effective role in deliberating over policy and in bargaining

between organized groups. Moreover, in Germany associations performing public functions were given the right to compulsory membership leading to one of the most densely organized civil societies (Streeck, 1995). According to Hall and Soskice (2001), the importance of institutionalized unions and the role of centralized and coordinated collective bargaining are reflected in the ability of Germany and other SMEs and SDEs to compete in high-quality product markets while maintaining high-wage employment. In Germany, unions use their powers in the firm, and through sectorial social partner bargaining, to maintain the skilled status of jobs, high levels of apprentice training, and high pay, and these in turn support firm strategies to aim for high value-added production and quality product markets (Brown et al, 2001).

A distinctive feature of SDEs, which sets them apart from SMEs, is the solidaristic wage policies which are achieved through centralised trade union bargaining. These policies are designed to promote productivity through egalitarianism and high trust work organisation. On the one hand, solidaristic wage policies imply that low-wage workers will get higher wage increases than dictated by market forces and this will put a constraint on inefficient firms which will drive them to increase their efficiency or go bust. On the other hand, the restraints on high-wage workers will allow efficient firms to prosper and expand (Pontusson 2008, p. 7). In SDEs, egalitarianism is recognized as a method to reduce income inequalities caused by profit differentials between firms. However, inequalities resulting from skills and abilities are maintained as an incentive for the acquisition of skills and the accumulation of human capital

Economic culture and history. Another aspect that sets these capitalist systems apart is their different histories and economic cultures. In Germany and other SMEs, quality competition is prevalent over price competition. The society values long-term commitments and goals rather than short-term profitability. Short-term speculation is less socially condoned than in LMEs and quality of working life has traditionally remained a high priority. The strength of labour unions is institutionalized and socially accepted. The compromise between labour and capital is the corner stone for high-wage employment and for competitiveness in high-quality industries. However, a particular feature of Germany (and German-speaking countries) is the persistence of early selection in the education system which has led to high levels of inequalities in educational achievements. Despite this, the efficient apprenticeship system is

able to mitigate these inequalities and generally SMEs have maintained lower levels of income inequality than LMEs (Green, Janmaat and Han, 2009).

In SDEs, the common Lutheran religious traditions were favourable for egalitarianism, the establishment of universal literacy and state regulation of the economy (Boli, 1989; Wiborg, 2009). This was made possible historically because of the relative weakness of the landed and bourgeois classes compared with the organised masses of the peasantry, who later combined politically with a growing organised working class through the social democratic movement to promote populist policies favouring equality. It should be noted that, according to Pontusson (2008), SDEs retain three major common cultural characteristics. First, the welfare state is meant to emancipate workers from their reliance on labour markets through empowerment. In the author's words, 'the thrust of the social democratic project is to bring people into the labour market and to empower them as sellers of labour power' (Pontusson, 2008, p. 11). Secondly, egalitarianism is also a common feature in SDEs, both with respect to social class and gender. Finally, redistribution and equality are considered to be characteristics which promote higher productivity.

In LMEs, economic freedom is held close to the heart. This freedom may be the reflection of historical origins of these states. In fact, one may think that the colonial origins of the US had a strong bearing on its economic culture. Society valued entrepreneurial (and religious) freedom, flexibility, individualism, and limited taxation and welfare (Green, Janmaat and Han, 2009). This was reflected in a variety of ways. First, minimal governance was intended to reduce the imprint of the state on the economy. In fact, the state was seen as a neutral arbiter concerned mainly with maintaining competition and market efficiency. Secondly, there was traditionally limited employment protection and labour market regulation. Thirdly, there was a strongly held belief that competition is the key to economic success rather than inter-firm cooperation. Fourthly, labour and capital relations tended to be adversarial and decentralized. Fifthly, short term profitability was the major instigator for radical innovation which allowed these economies to reap first-mover profits (Casey, 2007, p. 2). Finally, this short term profitability led to competition on price more than on quality and to the predominance of the stock market and the shareholding culture.

National Competitiveness in Varieties of Capitalism

The varieties of capitalism literature identifies the predominant modes of competition in each of the models of capitalism. In some accounts (Hall and Soskice, 2003; Streeck, 1989), these are, in part at least, derived from consideration of dominant product/market strategies at the level of firms in particular sectors and how these are supported by national and regional institutional structures and policies. Ultimately, all the writings on varieties of capitalism, however, seek to describe different competitiveness strategies at the national level. These have most frequently been differentiated into two types.

In the social market or 'coordinated' economies, national economic competitiveness is seen to rest largely on success in the export of manufactured goods, with Germany and Japan taken as the archetypal cases. The German economy is characterised by the strength of its wide range of sectors specialising in the production of high value goods for world markets – what Streeck (1989) refers to as 'diversified quality production.' The firms in these sectors are supported by: a national skills formation system which ensures a wide distribution of employees with relevant intermediate skills; a system of corporate ownership and governance which ensures the availability of long term finance; and by networks of state-supported technology transfer organisations which encourage innovation and inter-firm cooperation in knowledge transfer (Cooke and Morgan, 1998). The high-skills/high value-added approach to manufacturing is seen to have been remarkably successful as a competitiveness strategy with Germany maintaining its position as the world's second largest exporter. Other social market economies may rely less on exports than Germany, but their economies benefit from similar labour market institutions and infrastructures which support high productivity sectors which are highly competitive.

However, the system is increasingly under pressure from the globalisation of finance and business organisation. German firms, for instance, are more prone to hostile take-overs than they used to be and have to pay more regard to short-term returns to shareholders. They are increasingly opting out of the sectoral agreements on skills and pay levels which formed an important basis of the exceptional social partnership consensus around high skilled and high paid employment practices in German industry (Max Plank Institut, 1998). Co-determination arrangements are also having to be modified as German firms form joint ventures or mergers with foreign firms which do not practise industrial democracy. Globalisation has generally

put increasing pressure on the high social costs of the German manufacturing system and thus called into question some of the foundations of the high wage/high value competition strategy.

The liberal market economies, such as the UK and the US, have much more mixed competition strategies. Competitiveness is seen to depend partly on knowledge economy manufacturing and service sectors, such as aerospace, pharmaceuticals, financial services, IT and the creative industries. These benefit from the high level of scientific and creative skills delivered by good quality higher education systems and achieve high levels of productivity. On the other hand, large parts of these economies are competing on cost rather than quality, relying on low-paid, flexible labour for their competitiveness rather than high labour productivity. This is particularly the case in the UK where overall labour productivity is much lower than in the US, as we shall see below. One of the consequences of this has been highly polarised labour markets with high levels of wage inequality (Brown et al, 2001). Another has been the rapid eclipse of manufacturing by service industries and the over-reliance on profits from financial services for economic growth. De-regulation has been seen as a source of competitiveness in both high and low end industries, but with the social and economic costs of de-regulation in financial services now so apparent, how far this still remains viable is now in question.

As discussed above, some of the comparative political economy literature distinguishes a third variety of social democratic capitalism. Here, the dominant competition strategies are seen to be similar to those in the social market capitalist economies, but with a few significant variations. As in the SMEs, economic competitiveness SDEs is seen to be derived to a large extent from exports in high-value added industries and services, but with a greater emphasis on knowledge economy sectors. Here, egalitarian forms of welfare provision and labour market organisation are seen to enhance employment rates and support productivity and innovation through fostering flexible but secure, high-trust working environments (Castells and Himanen, 2002).

Figure 1: Living Standards

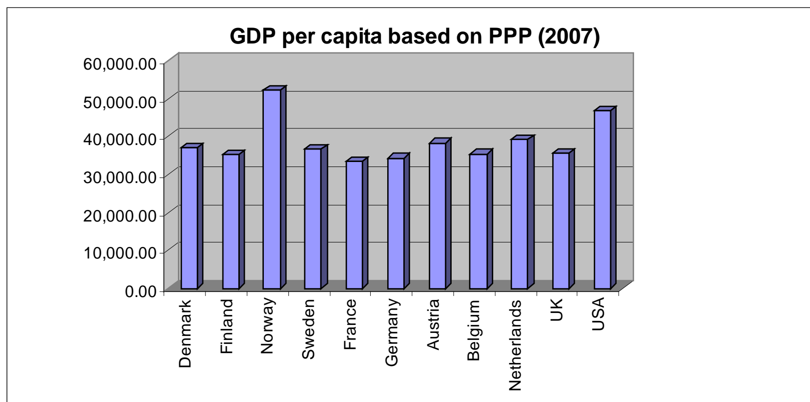
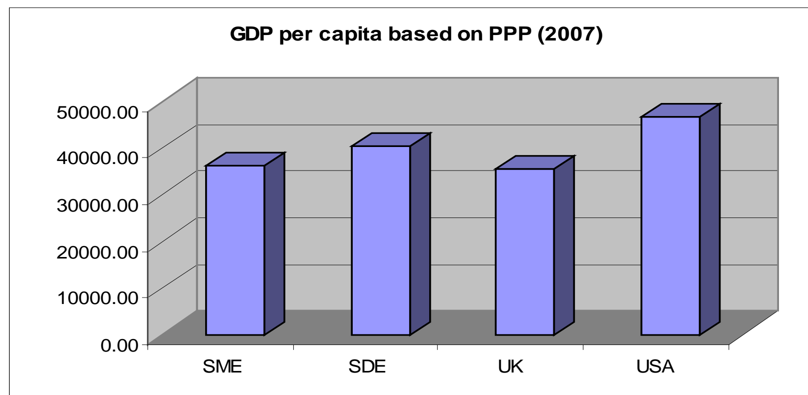


Figure 2: Average Living Standards by Country Groups



In terms of the major measures of national economic performance, we can see some clear patterns of difference between the liberal market economies, the social market economies and social democratic economies. Living standards in the different groups vary significantly, with GDP per capita highest in the US and in the social democratic economies, somewhat lower in the social market economies, and lowest in the UK (see Figures 1 and 2). This is due the variations across groups in the main constituents of GDP per capita, which is a product of labour productivity, employment rates and hours worked. Figures 3 to 6 show employment rates and labour productivity (output per hour worked) for individual countries and by averages for country groups. For the sake of simplicity we have not shown average working hours here, although they also vary across country groups and play a part in explaining variations in living standards between them. We can see from the bars in the charts that country groups are quite tightly clustered in terms of the values on different indicators for the countries within each group (although Norway has rather higher labour productivity than the

other three Nordic countries). However, we have to separate the UK and the US in the illustration because of the stark different in labour productivity in each case.

Figure 3: Labour Productivity by Country

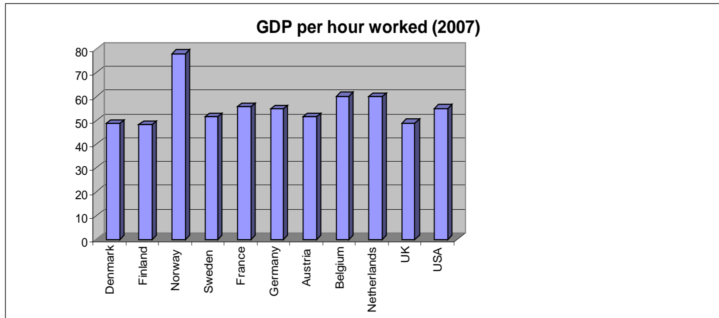
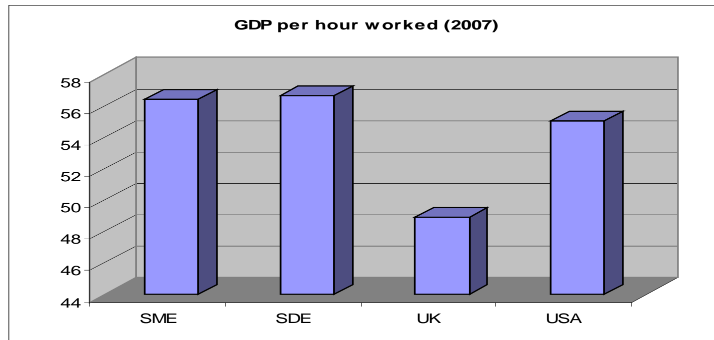


Figure 4: Labour Productivity by Country Group



Figures 3 and 4 show that labour productivity is highest in the social democratic and social market economies, with the social democratic economies' average pulled up considerably by the high figure for Norway. The US is slightly behind the average for these groups but a long way ahead of the UK whose labour productivity trails all the countries in the sample except Denmark and Finland, to which it compares closely. Per capita GDP is also affected strongly by employment rates, however, and these vary very substantially across country groups. As Figure 6 shows employment rates are much lower on average in the social market economies than in the social democratic economies and the UK and the US.

Figure 5 : Employment Rates by Country

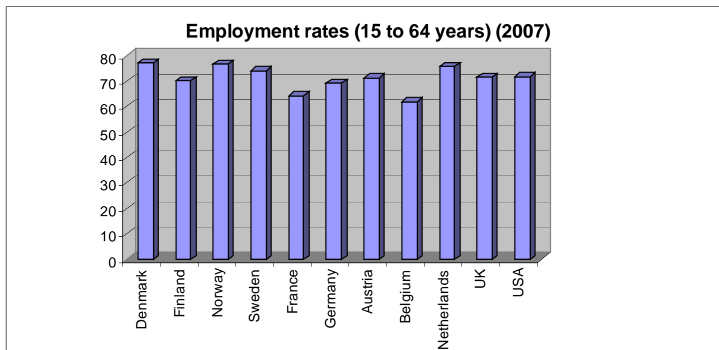
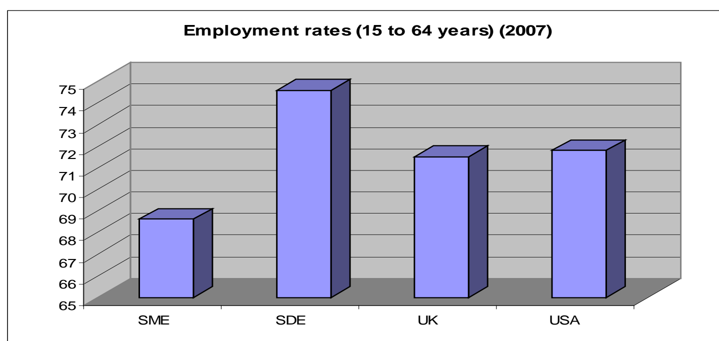


Figure 6 : Employment Rates by Country Group



Living standards are highest in the US because this country combines high labour productivity with high employment rates. The social market and social democratic economies also have relatively high living standards, with the average for the social democratic economies only exceeding that for the social market group because of the very high figure for Norway. The ways in which social democratic and social market economies achieve high living standards, however, vary significantly. The social market economies generally achieve high living standards, despite low employment rates, because most of them have very high labour productivity. Were their employment rates comparable to the US level, the living standards in the social market economies would be higher than in the US. The social democratic countries, on the other hand, all have very high employment rates, and this factor compensates in Denmark and Finland for somewhat lower labour productivity. The living standards in most of the social democratic countries are consequently comparable with those in social market economies, with Norway pushing up the average for the social democratic economies above the level for the social market economies. The UK also has very high employment rates. However, labour productivity is relatively low, so despite the high employment rates, living standards still lag behind most of the other countries in the sample

here. If labour productivity in the UK were increase to the levels in Germany and France, living standards would be amongst the highest in Europe.

Assessing the Contribution of the Varieties of Capitalism Literature

As we have said, the main pre-occupation of the literature on the Varieties of Capitalism has not been the empirical measurement of national economic competitiveness, but rather the analysis of the inter-relations between institutional and cultural factors (at the firm, regional and national levels) that support particular strategies for economic competition. Given this, one strength has been to avoid the contradictions of the competitiveness literature which has focussed excessively on measurement, but as we have seen, without the benefit of consistent measures and definitions. The chief positive strength of the literature has been its attention to the ways in which firm-level strategies for competitiveness are articulated with national policies and national, regional and sectoral institutional frameworks.

On the other hand, the comparative political economy of different forms of capitalism has frequently suffered two weaknesses. One is that in its desire to map the distinctiveness of different models, it has tended to focus too exclusively on the national level, sometimes underplaying the degree to which each form of capitalism has been transformed in recent years by transnational forces and the effects of globalisation. In the more historically informed accounts, institutional change has been given its due, but in some accounts the models have been unduly static and unable to account for continual changes within different economic systems, albeit that these are conditioned by path-dependent structures. The other problem has concerned how the models deal with sectoral divisions in the economies. In most countries different economic sectors deploy a variety of competitiveness strategies. Few accounts are able to analyse them all in their considerable variety. So the analytical strategy in most of the varieties of capitalism literature is to look at the competitiveness strategies in the dominant economic sectors and to generalise from them to the national level, looking at how national institutions and policies support these. The analyses are most effective when they show empirically how national institutional structures and cultural characteristics articulate with firm-level competition strategies in the different sectors in a dynamic fashion which takes account of path dependencies, social and political struggles and transnational change.

The main contribution of comparative political economy and the varieties of capitalism literature to theories of economic competitiveness has been to show empirically the different ways in which firms and countries compete. Although there remains much disagreement about relative merits of different forms of capitalism – the debate still rages in Europe, for instance, between advocates of the economic liberalism and the critics of the Anglo-Saxon model who prefer the more regulated systems of social market capitalism – comparative political economy has arguably done more than any other discipline to provide an evidential basis for judgements about the effects of different capitalist forms and to debunk many of the myths propagated by advocates, of all kinds, of a 'one best form' of capitalism. If we are able to conduct serious debates now about what aspects of the different models have been responsible for the current economic crisis - whether it be finance-driven, de-regulated capitalism, imbalances in world trade, or inappropriate government intervention - it is in so small part because this literature has provided some of the groundwork for this.

Section Three: Competitiveness and Economic Crises

So far, we have discussed the different definitions of competitiveness and the factors that underpin it in different types of capitalist economy. In this section, we analyze responses to the current economic crisis in different regions and how the crisis has impacted on countries with different models of capitalism.

The 2008 Economic Crisis

The 2008 economic crisis started with the bursting of a real estate bubble in the US which caused the values of securities tied to housing loans to plummet. This placed the banking system in the US and in other economies under strain and finally led to the collapse of several investment banks, the disruption of capital flows, the loss of confidence in banking institutions, the tightening of credit, severe cuts in interest rates, and the devaluation of national currencies.

The US housing bubble started to inflate from 1997 and peaked in 2006. Between 1999 and 2005, house prices increased by 42% (Stiglitz, 2010). The immediate cause had been the excessive provision of risky loans by banks and mortgage companies to home buyers with insufficient means to service their debts - sometimes at 120% of the value of properties they

bought and with no evidence of income provided - on the false assumption that property prices could only keep going up. These sub-prime loans were then bundled up into obscure packages of securitized debt which were sold on to other banks, including many in other countries, which did not know the levels of risk they were taking on. Stiglitz (2009) estimates that the US exported 50% of its toxic mortgages to other countries in this fashion. An even larger hosing bubble had been growing for similar reasons in the UK, where mortgages could be obtained for up to six times the borrower's annual income. Average house prices rose by over 100% between 1999 and 2007 - and the bubble burst in 2008.

The whole charade was made possible, in the first instance, by the poor judgement of market conditions and culture of excessive risk-taking by lenders, by weak government regulation of the banking and mortgage loans sector, and by the poor oversight of the rating agencies which evaluated company risks and failed to issue warnings (in fact, subprime-based securities in the US were rated 'triple A' by firms like Moody's). It was also helped by the general availability of easy credit. Significant amounts of foreign capital had been flowing into the US from fast-growing Asian economies (China) and from oil producing countries (the Gulf countries). This allowed the Federal Reserve to keep its interest rates at a low level for too long, as is now clear in retrospect. Alan Greenspan at the Federal Reserve had been overly confident that the markets could look after themselves without more regulation, despite the warnings of many economists, such as Roubini and Stiglitz, that the economy was overly endebted and heading for a crash. It was not just that sub-prime mortgages and their equivalent in the UK had raised the level of household liabilities to unsustainable levels. It was also, as we shall later, a question of the massive build-up of private debt in other areas as well, the result of the uncontrolled consumption boom which had grown since the 1980s (see Krugman, 'Revenge of the Glut', *New York Times*, 01.04.09). As Stiglitz (2010) has said, the only surprise about the final crash was that it came as a surprise to so many. The global nature of the ensuing crisis reflected the extent of financial globalization and the interdependence between economies.

The global recession that followed the 2008 financial crisis is generally acknowledged to be the worst since the Great Depression of the 1930s. For many economists, it was not only a cyclical financial crisis but a crisis of capitalism itself – or at least of the highly leveraged form of capitalism typified by the neo-liberal, Anglo-Saxon model. To Stiglitz, this was a crisis 'made in the US' which should be attributed primarily to the follies of de-regulation. Its

lesson for economists was that ‘unfettered financial markets do not work’ (Stiglitz, 2009). David Harvey (2008), Robin Blackburn (2008), Sylvia Walby (2009) and Andrew Glynn (2006), amongst others, have argued more generally that it was a crisis originating in both the US and the UK simultaneously. It was the ‘financialisation’ of capitalism, most extreme in the US and the UK, which provided the long-term dynamic which led to the crisis.

From the 1980s onwards, the US, under Ronald Reagan, and the UK, under Margaret Thatcher, had pursued aggressive policies of financial de-regulation designed to win greater shares of financial profits for Wall Street and the City of London. The financial sector made the most of these new opportunities and the 1986 ‘big bang’ bonfire of regulations in the City of London ushered in two decades of spectacular growth there. With declining competitiveness in manufacturing, and lacking sufficient opportunities for profitable investment in a global economy growing only weakly by historical standards (at least compared to years from 1945 to 1970) (Glyn, 2006), ingenious and opaque new financial instruments were devised from the 1980s (including derivates and credit default swaps), which allowed massively increased debt leveraging of financial institutions and - until the bubble burst - continuing high rates of profit. These new instruments - once described by investment banker Warren Buffet as ‘financial weapons of mass destruction’ (quoted in Fortune Magazine, 2003), but kept exempt from regulation by Greenspan at the Federal Reserve - misled the bankers into thinking they had made highly leveraged debt safe by spreading risks widely. In the event, they simply encouraged moral hazard and obscured risk so that the contagion would spread to other banks, including in continental Europe, which enthusiastically bought up the debt. On the back of the easy credit environment, and unchecked by the regulators, financial sector profits grew to unprecedented levels in the US and the UK, in the latter case, underpinning most of the GDP growth during the UK’s - in retrospect illusory - ‘economic boom’ during the 2000s. The banks, which had come to be seen as ‘too big to fail,’ and thus bound to be bailed out by the state when in crisis, had, in the UK at least, outgrown themselves, dominating the real economy around them and exercising a power which could have massively destabilizing effects on the rest of the economy.

Although the financial crisis originated in bad loans in the UK and the US, and although many regard it as a direct result of a particular ‘Anglo-Saxon’ model of highly leveraged, debt-based financial capitalism, other countries have not been spared its effects. Some, such

as Iceland, suffered because their banks were highly exposed in the financial markets for bad debt. Others, such as Germany, France and Japan, had less exposure through their banks, whose lending was more tightly regulated, but suffered through deterioration of their exports as world trade declined. In the end almost all of the advanced economies have been through major recessions, as we shall see later.

Responses to the Crisis

Global response to the crisis was swift. The US Federal Reserve and central banks around the world expanded their monetary supply and enacted large fiscal stimulus packages in order to boost consumption and to jump start the economy. In fact, central banks across the globe have purchased about 2.5 trillion USD of government debts and bad private loans. In addition to this, governments bailed out a variety of firms ranging from banks and insurance companies to automobile firms. The high point of global 'cooperation' came with the London meeting of the G20 which replaced the smaller G8. Despite the split between the UK and the US, which wanted a larger stimulus package, and France and Germany, which wanted greater financial regulation, a number of agreements were reached. These included: a fiscal expansion plan of 5 trillion USD in order to secure growth and reduce unemployment; 50 billion USD aid to help poorer countries; a renamed financial stability board to spot and evaluate risks; actions to limit tax havens; 250 Billion USD to support trade finance; and agreements to promote wider global regulation of hedge funds and credit rating agencies.

Stimulus packages were introduced in many countries in various forms, most notably through the massive programmes of so-called 'quantitative easing' in the UK and the US. Whether much of the rest of the G20 reform programme will ever be implemented remains doubtful. As Stiglitz points out, while all G20 countries averred that trade should be kept open at all costs, 19 of them have subsequently adopted some protectionist measures (Stiglitz, 2010). There have been widespread discussions on new forms of regulation, including: a Tobin-style tax on financial transactions; new requirements on the capital adequacy ratios for banks; new taxes on banks to recoup the costs of the bail-outs; and new insurance based schemes for banks to avoid the need for future bail-outs. However, although the UK and France have taken some – largely ineffectual - measures to curb bankers' bonuses, no international regulatory measures have yet been put in place, and it seems doubtful whether whatever does finally emerge will be sufficient to prevent future crises of this sort (Stiglitz, 2010). Although

any effective measures will require countries to act together, governments are still seeking to protect key areas of national economic interest which bedevils attempts at concerted action.

It is also notable that the countries which suffered most from the housing bubbles which started the recession, including the US and the UK, have as yet given little consideration to measures that would prevent these re-occurring. Main homes in the UK are still exempt from the taxes that apply to other forms of capital gains. Second homes are subject to capital gains taxes, but owners can easily avoid them by temporarily switching their second homes to main home status. Such tax privileges make property an obvious arena for speculation, thus ramping up prices. Lenders have typically reduced the loan to value limits on mortgages – to 75% in most mortgage offers in the UK - but mortgages can still be obtained with smaller deposits at higher interest rates, and these restrictions, which are voluntary in most countries, are already being eased and are unlikely to be sufficient to prevent further bubbles. The imposition of more effective measures to stem house price inflation - such as capital gains taxes or land value taxes on first homes - are still not seriously debated, although detailed proposals for land value taxation, for instance, have been put forward by the Liberal Democrats in the UK. The problem remains that many of the home owners, who constitute a majority of voters in many countries, still see their interests lying in the continuing increase in the value of their housing assets, since these can be used as collateral for further borrowing and consumption. This remains the case even when this may deprive many of the next generation of home ownership.

Responses to the crisis from economists have varied. Many have argued for substantial re-regulation of the banking sector to reduce its levels of leverage and risk. Stiglitz was prominent in advocating Keynesian style measures to counteract the recession. His priority was for long-term investment for job creation, rather than tax cuts, and for bank nationalisation rather than government socialising bank debt through purchasing bad loans without commensurate controls. He has also argued for radical long-term reforms of the banking system, including: the breaking up of banks considered ‘too big to fail’; the separation of retail and investment banking; the regulation of derivative sales on exchanges; and the radical overhaul of bonus compensation schemes, to tie payouts to long-term performance and to reduce the incentive to risky behaviour.[3] Stiglitz also argues that world demand must be increased by shifting resources from those who save (the rich) to those who

[3] Joseph Stiglitz in Vanity Fair (January 2009). “Capitalist Fools”.

spend (the poorest), which means measures must be taken to reverse the trend towards increasing polarisation of incomes in many countries.

Stiglitz is joined in some respects by Krugman (2008) who affirms that this crisis was steeped in moral hazard, in the absence of regulation (especially that of the shadow banking system), and in the inability of banking institutions to correctly evaluate the risk they were taking. His policy recommendations were to expand monetary supply in the short run to stave off financial collapse and reduce the depth of the recession and then to regulate the banking sector more widely. He proposed that banks, particularly those involved in high risk activities, should be required to maintain higher capital to lending ratios, and to regulate any institution that operates like a bank similarly to banks, although he fell short of recommending the separation on deposit and investment banking. More radical proposals from economists have included new transaction charges on banking (variants of the Tobin tax) to slow the rate of short-term speculative financial transactions and as a way for states to recoup the 2.5 trillion USD spent in propping up the banks.

Political responses to the economic crisis have varied from country to country to some degree, although how far the differences should be attributed to political positioning and how far they will lead to substantive national differences in policy is open to question. The reality is that any effective actions will require global agreements to be effective, so that countries are reluctant to take unilateral action to regulate banking when this may simply mean that banks transfer their activities elsewhere. So whilst many governments have made proposals, they have not generally acted on them where others were unwilling to do so. Following British Premier Gordon Brown's lead, most countries adopted substantial fiscal stimulus measures to mitigate the worst effects of the financial crises. The extent of quantitative easing and fiscal stimulus was generally higher in the UK and the US than in SMEs and SDEs, but many have argued that after taking account of the so-called 'automatic stabilisers' (from the higher welfare and unemployment benefits) the differences were not so great.

Bank bail-outs have been widespread, but they have taken different forms. The US produced the most liberal and banker-friendly model with the 800 billion USD TARP programme, whereby the Government bought out the bad loans of banks without taking any effective controls over the banks, whose losses have therefore effectively been socialised. The UK bank bail-out gave more control to government where it assumed majority ownership of

particular banks, and this allowed CEOs of failing banks to be replaced and bank bonuses to be somewhat curbed. But the measures fell short of the full-scale bank nationalisations successfully adopted by the Nordic countries after their early 1990s banking crises and advocated by economists such as Stiglitz after 2008. Government policies towards longer-term reform of the financial sector have also been different across countries, although again it is too soon to see how far the divergent rhetoric will lead to divergent practices. Certainly, the US leaders have been generally more reluctant to back re-regulation of the banks than continental European leaders to date. The UK Government has been a very late, and still somewhat equivocal, convert to more radical measures supported by some European continental leaders, such as the adoption of financial transaction taxes and curbs on bonuses.

Generally SDEs and SMEs have been inclined to present the financial crisis as an 'Anglo-Saxon' problem – one rooted in the speculative nature of a particular kind of finance capitalism which relied on highly leveraged debt rather than manufacturing to foster economic growth. By contrast, they have emphasised the continuing importance of manufactures and manufacturing exports in their economies, and the need to make financial institutions serve rather than dominate these sectors of their economies. There is little evidence that the US is set to go down this road. However, in the UK, there is a renewed debate about the importance of manufacturing and the dangers of an over-grown financial economy. Lord Mandelson, the Secretary of State for Business, Innovation and Skills, has recently become a convert to a new 'industrial activism' which sees the revival of manufacturing through state support for innovative industries as the key to re-balancing the UK economy. Whether this, and the tentative moves towards re-regulation of finance in the UK, portend a future convergence between the UK and the SMEs and SDEs remains to be seen. The answer will depend to some extent on the results of the next election.

A new Conservative Government will almost certainly revert to the individualist, anti-state position of previous Thatcherite governments, paying off government debt mainly through public sector cuts rather than through increased taxation, and doing as little as it can get away with in terms of regulating the City. However, if New Labour survives, for instance in some kind of alliance with the Liberal Democratic Party, there could be some unexpected turns in policy. Public sector cuts will occur in any case, although a Labour government, particularly if under pressure from liberal democratic allies, might well choose to make taxation on the more affluent play a larger part in debt reduction. Liberal Democrats propose to tax capital

gains on a par with earnings - to counter the prevalent practise of converting income into capital gains to avoid paying the higher income tax rates. They also seek to curb property speculation through land value taxation which would reduce the tax advantages to investment in property. These measures would be an important start in reforming the taxation system so that future speculative bubbles in housing are averted and in order to share more fairly the pain of re-building the public finances. In order to maintain public support for the years of austerity to come, and to restore the sense of solidarity and trust which has been so eroded through the polarization of incomes and flagrant greed at the top, a re-elected Labour government might well feel obliged to take more radical measures than before to reverse the long term increases in inequality in the UK. It might also wish to pre-empt growing inter-generational conflicts in society by addressing the concerns of younger voters who currently face not only increasing student debt, diminishing job prospects and unaffordable housing, but are likely to have to work longer and receive less in pensions than their parents' generation (Willetts, 2010). Winning back the votes of a generation who face worse prospects relative to their parents than any since the 1930s would be a tough undertaking, but it could become a major political priority if the mounting generation gap were to produce a more militant generation of young people in the years to come.

One future scenario for Britain then might bring renewed emphasis on equality, mobility and industrial activism, thus taking the country closer to the social democratic model. It seems unlikely, however, that the US will follow this kind of course, and that liberal market capitalism as a whole will be subsumed into an expanded social market hegemony.

Impacts of the Economic Downturn in Different Types of Capitalism

The crisis did not only affect the financial system; it extended beyond it to the real economy in all countries. In this section we attempt to assess the impact of the recession on the economies in different countries and regions to see if there are any patterns in the ways in which the different models of capitalism have been affected. To do this, we have assembled data from the IMF and the OECD on key macro-variables, including growth rates, investment, inflation, unemployment, national debt, household debt, and national current account balances. We have also calculated peak-to-trough percentage declines in GDP for a sample of countries. For countries which have already emerged from recession, these are calculated in terms of the total decline in GDP between peak and trough quarters as a

percentage of the GDP at the peak quarter (where all quarterly figures give the accumulated output in the year up to the end of the quarter). For countries still in recession, the calculations are based on the percentage declines to the last quarter. These figures can be found in the appendix.

This analysis is made at a time when the global economic crisis is still unfolding. We are observing a rapidly moving target, and therefore many of the assessments are very provisional. The data does not always reveal any very clear patterns in terms of the country clusters. For instance, there is as much variation within country groups (or models) as between on several indicators. Nevertheless, some patterns do emerge.

Growth and recession

The global recession has had a major impact on all countries. A few high-growth countries managed to avoid outright recession, but saw substantial declines in their growth rates for a brief period instead. Growth rates declined between 2008 and 2009, for instance, from 9% to 8.5% in China, from 7.3% to 5.3% in India; and from 2.35% to 0.73% in Australia, the latter having briefly dipped into to recession for only one quarter (see appendix). Elsewhere countries were in severe recession.

Figure 7: Peak to Trough Declines in GDP during the Recession

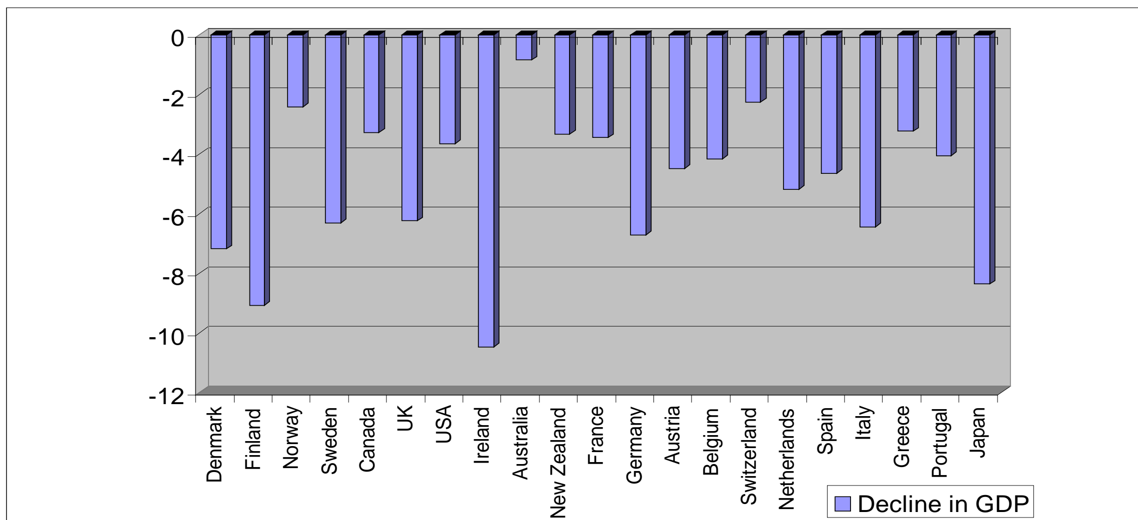


Figure 8: Peak to Trough Contractions

Countries	Decline in %
Australia	-0.85
Austria	-4.48
Belgium	-4.16
Canada	-3.27
Denmark	-7.18
Finland	-9.07
France	-3.45
Germany	-6.71
Greece	-3.24
Iceland	-12.01
Ireland	-10.46
Italy	-6.44
Japan	-8.36
Korea	-5.07
Netherlands	-5.18
New Zealand	-3.33
Norway	-2.43
Portugal	-4.06
Spain	-4.65
Sweden	-6.31
Switzerland	-2.26
United Kingdom	-6.25
United States	-3.66

As Figures 7 and 8 show, the largest peak to tough contractions were in Iceland (12.01%), Ireland (10.46%), Finland (9.09%) and Japan (8.36%), the first two countries being most severely affected by the banking crisis and the latter two seeing their exports badly hit by the down-turn in world trade. Amongst the countries with the mildest recessions were Norway (2.43%), New Zealand (3.33%) Canada (3.27%) and France (3.45%). Clearly there were 'winners' and 'losers' in all the country groups representing different models of capitalism.

Figure 9 Average Peak to Trough Declines in Each Country Group

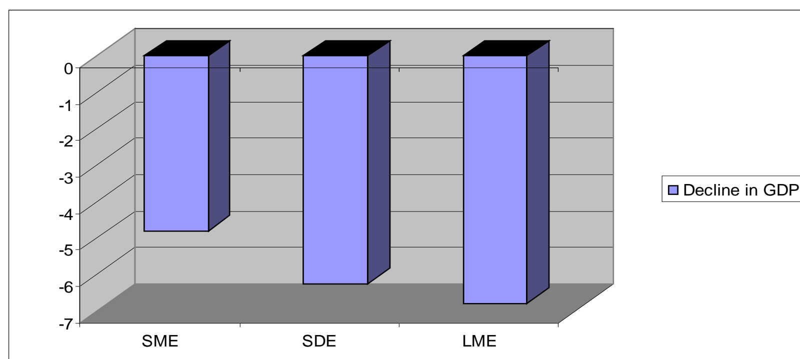


Figure 9 shows the averages of the percentage GPD contractions of countries in each country group. The social market economies had the lowest average percentage contractions of 4.8% compared with 6.2% in the social democratic economies and 6.8% in the liberal market economies. However, these averages mask substantial variations in performance of countries within each group.

The LME bar in Figure 9 is based on the figures for the two leading liberal market economies, the UK and the US, plus Ireland, whose economy was quite deeply intertwined with theirs. We have excluded other English-speaking countries such as Australia, New Zealand and bilingual Canada, since they are not closely associated with the liberal market model in the majority of writings on the varieties of capitalism. The average of the three included is clearly inflated by the figure for Ireland which is much worse than figures for the other two countries. The US and the UK are also quite far apart in the extent of their economic contractions. The US was quite successful in exporting its financial crisis and its economy has contracted by only 3.66% - considerably less than in many European countries. The UK, by contrast, has contracted by 6.25%, which is somewhat higher than the average for social market northern Europe (4.8%), but slightly less than Germany (6.71%).

The social democratic countries show as much internal variation as the liberal market economies, even after excluding Iceland on the grounds of its smallness and the exceptional nature of its banking crisis. Norway had a relatively mild recession with a contraction of only 2.43% while Sweden was closer to the UK and a little above the social market economy average at 6.31%. However, Denmark and Finland were at the higher end, with contractions of 7.18% and 9.07% respectively. Both fared worse than the average for social market economies.

The social market economies of northern Europe show a slightly more consistent pattern with a number of countries, including Austria, Belgium and the Netherlands, in the 4-6% range. But here there is still significant variation. Smaller overall economic contractions occurred in Switzerland (2.26%) and France (3.45%), whereas Germany suffered a large contraction of 6.71%, as its exports were hit by declining global trade.

Positive growth is expected to resume in most countries through 2010, albeit at very low levels in the West. According to IMF predictions, the US, Canada, Australia and Japan have

the best forecasted growth rates at 1.5%, 2.1%, 1.96%, and 1.68% respectively (see Appendix). Predicted growth rates are positive but modest for most European countries: Denmark (1%), Finland (1%), France (1%), Germany (0.35%), Italy (0.24%), the UK (1%), and Sweden (1.17%). By contrast, Spain and Ireland are expected to be the last countries to emerge from recession with forecasted growth rates for 2010 of -0.74% and -2.5% respectively. The IMF's projected growth rates for 2010 suggest a more rapid recovery in North America and the pacific (Japan and Australia) than in Europe, with northern Europe again leading the pack there. However, some leading economists predict that the US will go back into to recession in 2010 (Stiglitz, 2010) and similar fears of a 'double dip' into recession in the UK also abound.

Investment as percentage of GDP

In a major economic crisis, the collapse of the banking system and the contraction of credit have major consequences for business. In the 1930s and in the 1997 Asian financial crisis, the loss of confidence led to the shrinkage of credit and to the decline in foreign investments. In addition to this, individuals are less likely to invest or spend during an economic downturn, which will further depress the economy. This is what happened by the end of 2008 and during 2009. Most industrial countries have witnessed a decline in investment (as a percentage of GDP) and this is likely to continue until 2011. Amongst our set of countries, investment declines between 2008 and 2009 were greatest in the UK (3.3%) and the US (3.2%) but also considerable in other major economies: 2% in Canada, 2.5% in France, 2.2% in Germany, 3% in Italy and 2.2% in Japan. On this measure the liberal market economies have fared amongst the worst.

Inflation

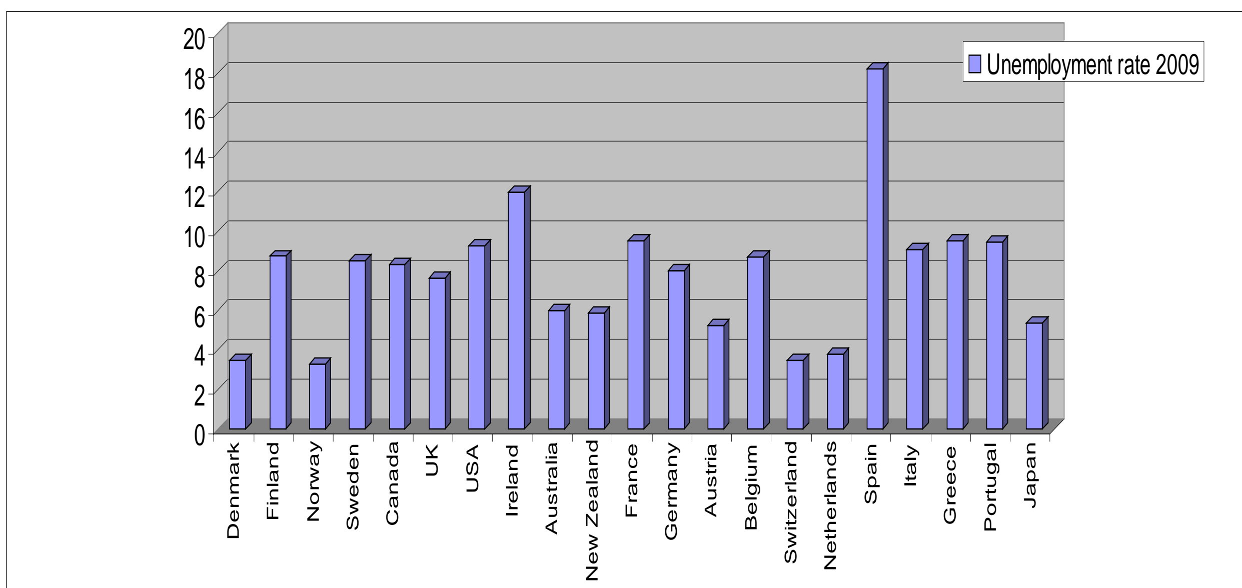
Deflation and disinflation are often associated with economic crises. Deflation occurs when prices are decreasing, in other words when inflation is negative (e.g. -2%). Disinflation means that prices are increasing at a lower rate (e.g. if inflation drops from 3% to 1%). Contraction in the economy, increases in unemployment and falling consumption are all factors which put a downward pressure on prices. In 2008, commodity and real estate prices started to drop and prices deflated in a number of countries. Inflation rates dropped from 6% to -0.06% in China, from 3% to -1.6% in Ireland, from 1.4% to -1.1% in Japan, from 4.1% to

-0.29% in Spain, and from 3.8% to -0.4% in the US. By contrast, inflation rates remained positive but declining in the remaining countries in our set. The largest percentage point declines overall were in the US (4.2 points) and Finland (2.9 points). Disinflation was also strong in France (2.82 points), Italy (2.75 points), Canada (2.25 points), and Germany (2.16 points). Less marked disinflation occurred in Denmark (1.72 points), Sweden (1.05 points), Norway (1.44 points), and the UK (1.73 points).

Unemployment

Unemployment increased to high levels in 2009 in most of the industrialised countries. It reached its highest level since 1983 in the US (10%) and very high levels were also reached in Spain (18%), Ireland (15.5%), the UK (8%), France (10%), and Sweden (8.5%). Spain's unemployment was high before the recession - never dropping below 8% since 2000 - but was exacerbated by sharp declines in exports, and it is predicted to reach over 19% before the end of 2010. Employment in Ireland has suffered particularly because of the very sharp public expenditure cuts imposed to address deficits accumulated as a result of the bail-out of a banking system closely tied to the Anglo-American epicentre of the financial crisis. In some countries, such as the US and the UK, unemployment has not increased as fast as many had expected, partly because flexible labour markets allowed many employees to shift from full-time to part-time working and thus avoid losing their jobs altogether.

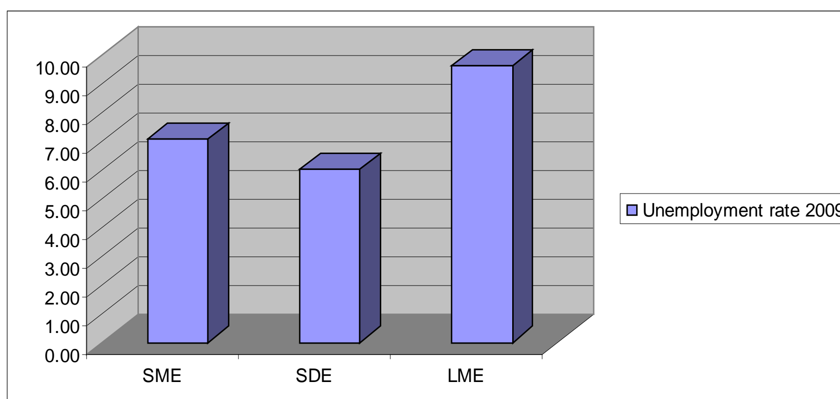
Figure 10 Unemployment Rates in 2009 by Country



However, real levels of unemployment and under-employment are no doubt much higher than official figures suggest. Stiglitz estimates that with a broad measure of unemployment, which includes both the underemployed and discouraged job seekers, US unemployment actually stood at 17.5% in October 2009 (Stiglitz, 2010, p. 79). Moreover, despite the fragile return to growth in most countries, unemployment is predicted to continue rising in many countries for several years to come. In the US, for instance, with expansion of entrants to the labour markets continuing at the normal rate, and productivity increasing at 2%, unemployment will not even stabilise until growth reaches 3-4%, which seems to be some way off still (Stiglitz, 2010). Future cuts in public spending to reduce the government debt in the UK are also likely to lift unemployment rates higher for several years, even with a modest return to growth. The only countries in our sample to have retained reasonably low levels of unemployment are Denmark (3.5%) and Norway (3.3%).

Unemployment rates vary considerably across the country groups. The southern European countries had consistently high levels of unemployment in 2009, with Spain reaching 18.2%, and Greece, Italy and Portugal each around 9% (Italy: 9.1%; Greece: 9.5%; and Portugal 9.45%). As Figure 11 shows, in relation to our three main economic models, national unemployment rates averaged highest in the liberal market economies (9.63%), were somewhat lower in the social market economies (7.06%), and were lowest in the social

Figure 11: Unemployment Rates by Country Clusters



Democratic economies (6.01%). However, as with some other indicators, there is considerable variation within the country clusters. The social democratic economies, for instance, have quite high unemployment rates in two cases (Finland: 8.74%; and Sweden:

8.49%) and relatively low rates in two others (Denmark: 3.5% and Norway: 3.3%). Unemployment rates in the social market economies range from the relatively modest 3.5% and 3.8% figures in Switzerland and the Netherlands, to highs of 8.7% and 9.5% in Belgium and France. All of the liberal market economies now have high unemployment rates, with Ireland the worst at 12%, but the UK (7.67%) and the US (9.26%) also high. High rates of part-time working in these countries may mean that the official figures conceal even higher rates of under-employment.

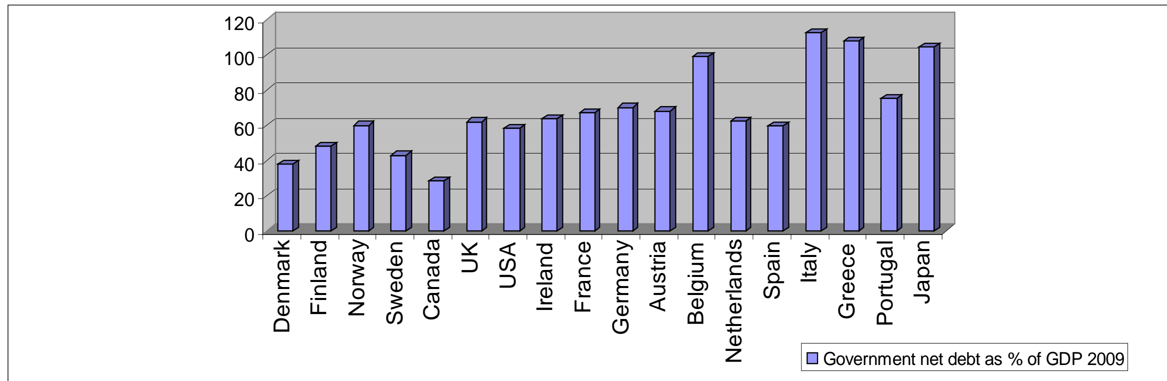
Trade balances and debt

During the boom era, most western industrialized countries accumulated large public debts and trade deficits. This was partly due to the imbalance in the distribution of surplus in the global economy (Gamble 2009, p. 119). China, Germany, and several emerging economies experienced a huge increase in their exports during the 1990s, while other countries such as the US racked up vast deficits. The Asian surpluses were recycled by the financial system and created the conditions which allowed the credit boom in the Anglo-sphere. For instance, the surpluses made by China were used to fund its public debt and to buy US treasury bonds. By selling local currencies for US dollars, many East Asian countries were able to keep their currencies at competitive levels, which boosted trade and, at the same time, to build up vast dollar denominated reserves to hedge against future crises. During the recession, however, trade surpluses dropped in many of the countries with strong export performance (e.g. between 2008 and 2009 from 6.5% to 3% in Germany and from 19.5% to 14% in Norway). However, a number of countries still had large trade surpluses in 2009 (measured as current account balance as a percentage of GDP), including China (7.8%), Germany (3%), Japan (2%), Norway (14%), and Sweden (6.4%). On the other hand, many countries had substantial trade deficits, including the US (-3%), the UK (-2%), Spain (-6%), Italy (-2.5%), France (-1.16%), Canada (-2.6%), and Australia (-3.25%).

Public debt as a percentage of GDP rose in most countries during the recession, because of reduced tax revenues and government spending on stimulus measures. Some countries had very high levels of public debt before the recession and are set to see them rise much higher. IMF predictions show public debt rising between 2008 and 2010 from 57.76% to 72.91% in France, from 60.51% to 76.16% in Germany, from 103.6% to 116.98% in Italy, and from 88% to 115% in Japan. The predicted rate of increase is particularly high for countries which

had disproportionately large stimulus packages, such as the UK (from 45.61% to 75.06%) and the US (from 47.91 to 66.85%).

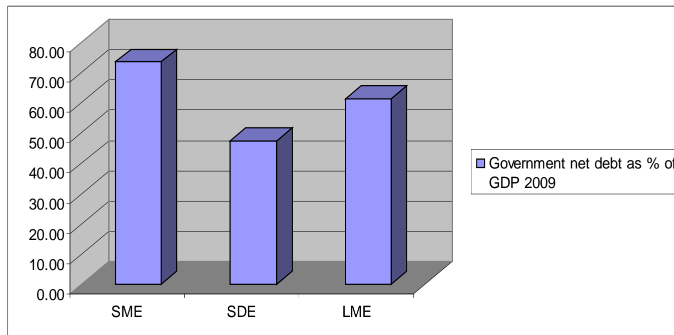
Figure 12: Public Debt



Based on the actual 2009 figures, public debt was the highest in Japan (106.4%), Italy (112.8%), and Greece (120%). As Figure 13 shows, amongst the three political economy groups, the social market economies have the highest averages for public debt (73.36%), followed by the liberal market economies (61.34%). The social democratic countries average substantially lower at 47.25%. On this indicator, the countries in each model do cluster relatively well, suggesting that the models are distinguished by their fiscal policies to some degree, as argued before. Five of the six social market economies have levels of public debt in the 6th percentile, whilst levels in social democratic countries cluster around the 40% mark, with only Norway diverging somewhat with a higher 60% level. The three liberal market economies were all in the 58 to 63% range.

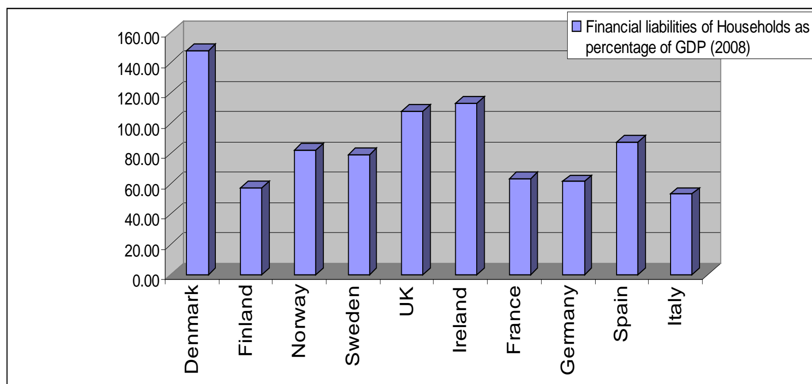
The UK and the US had quite average levels of public debt in 2009 (62.11% and 58.21% respectively) for this sample of countries, and slightly less, for instance, than France (66.98%) and Germany (70.31%). However, their debt levels are projected to rise substantially by 2012 – according to the IMF to 87.56% in the UK and 76.24% in the US. This would put the US only just under France (79.94%) and the UK higher than both France and Germany (81.57%) on the projections for those countries.

Figure 13: Public Debt by Country Group



Despite the intense debates about the high levels of public debt in the UK and the US, public finances in these countries are currently no worse than in quite a number of other western economies, although their debts are set to rise higher. However, what may make the economies in the US, the UK and Ireland more vulnerable is the simultaneously high level of private debt.

Figure 14: Private Debt



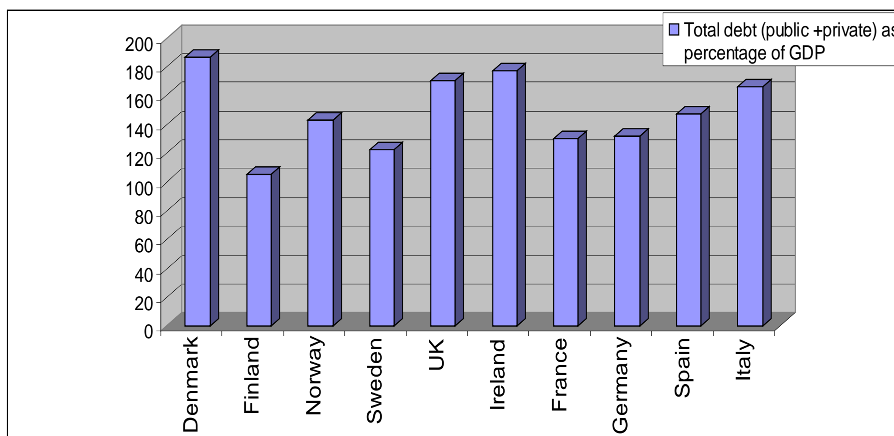
At the beginning of 2008, household debt as a percentage of household income was estimated by the US Federal Reserve at 159.9 % in the UK and 130.6% in the US. Estimates for the summer of 2008, just prior to the recession, suggest that the UK figure had risen to 173% – the highest level ever recorded for any major (G7) country, according to the Office for National Statistics (Conway, 2009). In December 2009, the average UK household owed £9120 without mortgages and £58316 with mortgages.[4] Borrowers from the UK account for

[4] http://www.creditaction.org.uk/debt-statistics.html

about one third of all unsecured debt in Western Europe (overdrafts, credit cards and other unsecured loans) according to Datamonitor.[5]

Figure 14, based on Eurostats data on financial liabilities of households as a percentage of GDP, bears out this picture. The UK and Ireland have higher levels of private debt than all other countries, except Denmark. The US does not appear in these data, but the Bureau of Economic Accounts, which uses a wider measure of private debt, shows a similar problem for the US. According to their historical data, between 1975 and 2007 total debt to GDP in the US rose from 155% to 355%.[6] Most of this increase was in private debt. While public debt as a proportion of GDP rose from 37% to 52%, the private debt ratio went from 117% to 303% in just over 30 years. Although public debt gets most of the attention in political and media commentaries, the massive scale of private debt arguably poses an equivalent problem (Kemp, 2010).

Figure 15: Combined public and private debt



If we look at the combined public and private debt, it is clear that several of the liberal market economies, including Ireland, the US and the UK, have exceptional problems. Figure 15 shows for European countries public debt as a proportion of GDP plus household financial liabilities as a proportion of GDP. Using these measures, the total debt ratio to GDP in the

[5] See Independent 'Britain becomes 'never, never land' as personal debt runs out of control' http://www.independent.co.uk/money/loans-credit/britain-becomes-never-never-land-as-personal-debt-runs-out-of-control-417809.html

[6] Sources: Federal Reserve System, *Flow of Funds Accounts of the United States* , Table L.1 ; Bureau of Economic Analysis, *National Income and Product Accounts* , Table 1.1.5

Figure 16: Public Private and Total Debt

	Public net debt as percentage of GDP (2009)	Financial liabilities of Households as percentage of GDP (2008)	Total debt (public +private) as percentage of GDP
Denmark	38	148.30	186.3
Finland	48	57.30	105.3
Norway	60	83	142.5
Sweden	43	79.00	122.0
Canada	28.24		
UK	62.11	108	170.2
US	58.21		
Ireland	63.70	113.40	177.1
France	66.98	63.30	130.3
Germany	70.31	61.40	131.7
Spain	59.50	87.70	147.2
Italy	112.80	53.20	166.0
Japan	104.64		
China	18.20		
India	60.10		

UK (170.2%) and Ireland (177.1%) is very much higher than in all the other countries listed, except Denmark. With Denmark's relatively low unemployment levels, Danish households may be better placed to pay down their debts, and high aggregate indebtedness may not provide such a drag on economic recovery. However, the UK, Ireland and the US also have high unemployment rates, and exceptionally high levels of debt are more likely to make economic recovery a slow process.

Conclusions

What can this survey of economic indicators tells us about how well different regions have weathered the economic crisis? How have the different 'varieties of capitalism' performed in the face of the greatest economic recession since the 1930s? The evidence is somewhat mixed, and countries within each region (or model) clearly do not all perform in similar ways on particular indicators. In fact, as we have noted, on some indicators there is more variation between countries in different regions than there is across the regions (or models). Two of the major Nordic countries (Sweden and Finland), for instance, have quite high unemployment whereas two others (Denmark and Norway) do not. Clearly a number of quite specific national factors are in play in each case. However, some more general patterns do emerge.

The fast-growing Asian economies (China and India) have clearly survived the recession best, despite the damage done to their exports, because of their substantial trade and government surpluses, their relative protection from banking collapses, and because they were already on a high growth path. In the West, some individual countries have performed better than others. Norway had a relatively modest recession and has returned to growth with relatively low unemployment, a strong trade surplus and only moderate levels of debt. France has so far also fared reasonably well. With a more regulated banking and housing sector, France's financial crisis was less severe than in the liberal market economies and its recession was less profound. It has returned to modest growth burdened with large public debt and high levels of unemployment, but its private debt is less than in many other countries. These countries are not altogether typical of their country groups, however.

It is not difficult to identify the worst affected region in Europe as the South, including Italy, Greece, Spain and Portugal. Italy and Spain both had major recessions, in the Spanish case exacerbated by the substantial housing market slump which preceded the recession. Italy has just emerged from the recession, but with exceptionally high levels of public debt and a large trade deficit. Spain, with very high unemployment, a large trade deficit and substantial levels of debt, is expected to remain in recession for some time. Greece is currently in turmoil over its levels of public debt and may be forced to go to the IMF to secure its finances.

In terms of the main political economy models, the liberal market economies and social democratic economies have experienced on average rather more severe recessions than the northern European social market economies, although the large variations between countries in each group make it difficult to ascribe this directly their economic models. There is also some evidence that liberal market economies are emerging from recession with more obstacles to recovery than social market and social democratic economies.

The social market economies have suffered moderate to severe recessions but are now back to fragile growth. Unemployment remains high and the public debt is considerable in most cases, but they have the advantage, over the liberal market economies at least, that their levels of private debt are not so high. The social democratic countries had, on average, somewhat more severe economic contractions than the social market economies in the sample, although the recession was quite moderate in Norway. Iceland excepted, they generally have lower public debt than most of the social market and liberal market

economies, not least due to the less drastic measures needed to secure their better regulated banking sectors. But the total debt burden is no less than in the social market economies. Denmark and Norway, with quite low levels of unemployment, may be better placed for recovery than most of the social market economies, but as a group the social democratic economies look similarly placed to the social market economies in terms of prospects for recovery.

In the Anglo-sphere, two of the English-speaking countries – bi-lingual Canada and Australia – were least affected by the economic crisis and, indeed, Australia has managed to avoid recession altogether, barring a one-quarter dip. However, the major liberal market economies, the UK and the US, and Ireland, whose economy is closely tied to theirs, have been at the epicentre of the crisis which began within their systems. They have exhibited an accumulation of economic problems. These include: the most severe banking crises; large trade deficits; declining investment; rapid increases in unemployment; and high levels of public and private debt. Whilst the recession has been no more severe in these countries than in many continental European countries to date, the road to recovery includes more obstacles and may be more protracted than in northern continental Europe.

The UK has been advantaged relative to Eurozone countries by its flexible labour markets, which have somewhat curbed unemployment growth. It has also had the benefit of greater exchange rate autonomy. However, the drop in the value of sterling against major currencies has failed to stimulate substantial export growth so far (Elliott, 2010). This may be partly due to the lack of demand in the Eurozone, the UK's major trading partner. But it may also reflect a rise in unit wage costs, driven by falling productivity (Davies, 2010). In any case, the economic competitiveness is still handicapped by relatively low productivity, as we saw earlier. The UK also has an overgrown and overly powerful financial sector which provides a major obstacle to regulatory change. This has so far largely foiled Government attempts to rein in the bonus culture – a major cause of the excessive risk-taking that brought on the financial crisis. Neither of the two main markets which detonated the crisis - the housing and financial markets – have yet been significantly reformed and further shocks from these sectors are still quite possible. A double dip into recession in 2010 is still a strong possibility. With or without further major shocks to the economy, it will take a long time to bring down the high level of public debt accumulated in the process of bailing out the banks unless there is a return to robust growth, and this seems unlikely given low and declining levels of

business investment (Pimlott, 2010)[7], declining bank lending to businesses (Stewart, 2010), and the restraints on consumption from high levels of private debt. Consumers now have to pay down their debts which will inevitably constrain the recovery in consumer spending needed to pull the country out of recession. This may explain why the UK was the last major (G20) economy to exit the recession (Wolf, 2009).

In assessing how the different models of capitalism have fared during the economic crisis, we clearly have to distinguish the issue of responsibility from the issue of economic resilience. In the first case, it is quite clear that liberal market economies bear the burden of responsibility for bringing the global economy to the point of collapse. The majority of economic opinion would certainly be that the deregulatory policies which allowed excessive borrowing - and more broadly, the excessive financialisation of capitalism - were the major factors behind the crisis and that these were both at the heart of the liberal market model. Alternative explanations carry little weight and are often little more than political debating points. To argue, for instance, as Alan Greenspan has done recently (see Stiglitz, 2010), that China and other East Asian states caused the crisis by supporting the dollar and buying too much US debt, would be to argue that the US has no control over its fiscal policies. This is a strange position for the former chairman of the Fed to adopt since the Fed sets interest rates and the US Treasury issues bonds. Continental European critiques of the 'Anglo-Saxon model' have inevitably gained greater credence as a result of the crisis and the reputation of neo-liberal market economists has been substantially weakened for the present, not least for almost universally failing to see the crisis coming (Stiglitz, 2010).

Being responsible for the crisis, however, does not necessarily mean that the liberal market economies will emerge worst off in the long term. Many of the sharpest critics of neo-liberalism, such as David Harvey, do not see this as the likely outcome (Harvey, 2008). The global interconnectedness of economies is such now that all countries feel the effects of economic problems originating elsewhere. Countries which bear little or no responsibility for the crisis may even suffer graver consequences than the originators. Powerful economies are best able to export their economic crises and this would not be the first time that the US has effectively done this (Arrighi, 2007). The provisional assessment here, based on the impacts of the recession to date across countries, is that the social market and social democratic

[7] Business investment in the UK dropped 5.8 % between the third and fourth quarters of 2009 ended 2009 24.1% lower than a year before.

countries are equally well positioned to make a gradual recovery from the recession, whereas the liberal market economies may face a more bumpy road to economic health. The policies and ideologies which brought on the crisis are more entrenched in these countries, and they will inevitably encounter more political turmoil in the battle to reform their systems. However, the picture is very mixed both now and in terms of the longer range prospects. All the main models of capitalism will face major challenges in remaining competitive in the future in the rapidly changing global economy. The futures of the US and European economies will both be fundamentally shaped in the coming decades by the rise of East Asia.

The US

Despite the relative decline in US power since the late 1980s and the emergence of new countries in Asia, the US still comprises 25% of the global economy. Hence, its role is essential for the creation and maintenance of any new economic system. In his book, *Manias, Panics, and Crashes* (1978), Kindleberger argued that the 1930s' depression was very deep because no state assumed the role of a hegemon, a role that is essential for creating the policies and institutions that would stabilize the world economy. During these years, the British Empire was declining and did not have the capacity to assume that role, even if it had the will. In contrast, the US had the capacity but not the will (see Gamble, 2009, p.58). However, after World War Two, the US assumed fully its role as the leader of the global economy, which was the most apparent during the stagflation years of the 1970s.

In the last two decades, the global political economy shifted again after the emergence of new economic powers. The EU taken together was as large as the US, and China and India were growing at an increasing speed. Further, the US was no longer a surplus country and was increasingly dependent on foreign lenders to fund household and public debt and provide cheap foreign exports to meet consumer demands. In addition to this, the US maintained military spending at a very high level, with the costs of the war in Iraq alone estimated at three trillion dollars (Stiglitz and Bilmes, 2008). The US dollar was also more vulnerable as the world's reserve currency, and different countries started considering the diversification of their assets towards other currencies. These weaknesses were finally brought to light after the collapse of the Anglo-Saxon growth model based on financial deregulation. Now the US is at a crossroads. According to Gamble (2009) three alternatives can be envisaged.

Unilateralism. The US might be inclined to pursue the Bush doctrine through US primacy. This policy would put forward American interests and would affirm its dominance. It would not seek to enhance the relations between the US and its allies and would disengage from organisations such as the UN or at least try to have more control over them. As Gamble (2009, p.123) notes, the goal of creating an overarching community would be abandoned. However, after the election of Obama, the US seems to be moving in the opposite direction. In addition to this, unilateralism seems to be harder to achieve after 2008 since the US needs agreement and support from other world economic powers, including China with whom US relations remain tense.

Isolation. Another scenario would be to rewind history back to the beginning of the twentieth century. This would mean that the US disengages from its role as a world leader, reduces its military presence overseas, adopts protectionist and autarchic economic policies, and breaks with almost a hundred years of interventionist legacy. Even though such policies might be popular among some Americans, they seem to be unrealistic. Nowadays, the US is heavily dependent on cheap manufacturing and oil imports, and on foreign funds. Isolation means that Americans would have to accept a decline in their living standards due to the loss of purchasing power and to the unavailability of cheap credit. In a recent paper, Stiglitz (2009) argues that the problem of the US economy was not the availability of credit at low interest rates (mainly Chinese funds), but the misuse of credit to fund a housing bubble instead of funding more productive investments such as industries. In other words, the solution to the crisis lies not in isolation but in regulation.

Multilateralism. Gamble's final alternative consists of re-engaging with other major economic powers in order to create a new economic order and to put in place the new institutions of global governance appropriate to the new balance of power. This alternative means that the US would have to share leadership and would have to accept compromise and cooperation with other countries. This requires empowering diplomacy and organisations such as the UN and the G20. It also means recognizing the economic importance of emerging economies by giving them more power on the key global economic bodies such as the IMF and the World Bank. However, the main obstacle would be the possible domestic clash with deeply held beliefs about the rightful role of the US. Since the election of Barack Obama to the White House, this alternative seemed to be the most plausible, but would still require a major shift in the US outlook.

The EU

As we have seen earlier, most European countries were affected by the crisis even if they were not directly implicated in the banking crash. For instance, countries with large trade surpluses, such as Germany, lost part of their competitiveness due the decline in global demand and had to suffer from increased unemployment. Other countries, such as Spain, had to suffer from a decline in exports caused by the devaluation of the US dollar, which meant that their exports became less competitive on the global market. Despite, or perhaps partly because, Europe has grown through the enlargement process in recent years, it is still divided along several lines.

Firstly, the EU does not form a single state even though some institutions have been created in order to harmonise policy. Hence, European states are still divided in terms of economic and foreign policy. This division became the most apparent before the Iraqi war when France and Germany opposed military intervention while the UK and other East European countries supported US policies. Further, as we have discussed in previous sections, the division between LMEs (the UK, Ireland) and SMEs/SDEs (France and Germany and the Nordics) has major implications for the structure of economic systems which, in turn, affect their response to the crisis. The Anglo-sphere countries developed a service economy based on financial deregulation, while the SMEs conserved their regulated industrial economy.

Secondly, European states also seem to be divided in terms of monetary and fiscal policy. For instance, Germany has always pursued a strategy of competitiveness in high quality industrial sectors combined with strong currency, while other countries - mainly Spain, Italy and, to some extent, France - are more keen on having a weaker currency which will boost their exports and tourism. In addition to this, the absence of a coordinated fiscal policy within the Eurozone, starkly on show recently with the disagreements on how to respond to the Greek debt crisis, limits the possibilities of action for the European central bank and places heavy strain on the integrity of the system.

These divisions limit the possibility of an integrated European action in the face of the recession. Moreover, as Gamble (2009, p.127) argues, a long recession could even lead to the break-up of the Eurozone, or at least to the withdrawal of some countries from it, and this

possibility has strengthened with the escalating crises of the Greek economy. According to him, Europe may even emerge weaker from the recession than it was before, and the creation of a consensus over certain policies will prove to be very hard.

China

In the last two decades, China became the fastest growing economy of the world. It held strong during the recent crisis, even though growth declined from 13% to 8.5% between 2007 and 2009. The main reason behind the Chinese economic miracle was its ability to use its massive reservoir of labour to submerge the global market with cheap manufactured products. By doing so China accumulated huge trade surpluses that were used to fund public and private debt in the Anglo-sphere. This phenomenon marked the boom era in the US and made possible the policy mistakes in the US that caused the bubble economy. However, by the end of 2007, it was clear that this processes could not continue forever and that the Anglo-sphere countries would be unable to service their growing debt (Gamble 2009, p.131).

The main problem for China is that it cannot stop growing or even afford to grow at lower rates without increasing unemployment and social unrest. Further, China grew overly dependent on the US as its main market, with the domestic market still underdeveloped. Hence, a global recession might have a devastating impact if it were to last too long. China also has difficult decisions to make about its dollar dependence. If it seeks to shift its vast reserves out of dollars, the dollar will decline and China's finances will take a huge hit through the depreciation of its remaining dollar reserves, whilst its exports to the US will also suffer. On the other hand, to maintain the excessive reliance on an unstable dollar will only be to postpone the reckoning. Like several other Asian powers, China is beginning to move its reserves out of dollars into other currencies. It sold 34 billion dollars worth of US treasury bonds in December 2009, although this still leaves it with a massive 755.4 billion dollars of US government debt (Branigan and Stewart, 2010). In the absence of a new global system of reserves taking shape (as advocated by China, for instance), it seems likely that multiple reserve currencies will emerge which will be inherently unstable (Stiglitz, 2010).

Gamble (2009) argues that this particular dependency between China and the US will be at the core of the new economic order. Despite that, conflict and discord may arise because each of them might try to pursue its interests in a unilateral manner. For instance, by the

beginning of the crisis, the US devaluated its currency in order to boost the competitiveness of its products to the determinant of Chinese imports. Similarly, in the near future, China might be inclined to develop its internal market and to diversify its markets outside the western world. One should note that 50% of Chinese exports go to other emerging economies and this might be the trend for the future. In addition to this, China is increasing domestic spending on infrastructure, education and health in order to ensure sustainable growth. China will try to safeguard the supplies needed for its continued growth through multilateral agreements with other states, and in this context one can understand the Chinese programmes in Africa.

In his recent book, *Adam Smith in Beijing*, which traces the history of global shifts in geo-political power and economic domination, the economic historian Giovanni Arrighi (2007) paints an intriguing scenario of relations between the two future hegemons, China and the US, taking note of China's distinctive long-term history of predominantly non-expansionist and labour intensive market development. 'Under current circumstances,' he writes:

> …could not China's optimal strategy vis-à-vis the United States be a variant of the earlier US strategy vis-à-vis Britain [in the first half of the twentieth century]…to let the United states exhaust itself militarily and financially in an endless war against terror; …to enrich itself by supplying goods and credit to the increasingly incoherent US superpower; and, then, use its expanding natural market and wealth to win over allies (including some US corporations) in the creation of a new world order centred on China, but not necessarily dominated militarily by China. (Arrighi, 2007, p.312)

What can be said finally about the impact of the recession on the competitiveness of the different models of capitalism? As yet, it is still too early to see what new global financial order may emerge and what will be the place of different types of capitalism within it. Only two things can be said with certainty. One is that the neo-liberal model of deregulated, highly leveraged, finance-based capitalism has been deeply discredited. Scepticism about the inherent perfection of the market will remain widespread and market fundamentalists will find it harder to argue against the need for stronger regulation and thus greater state intervention in the market, at both national and international levels. The second is that the centre of global economy has further shifted away from the US and towards Asia. As Stiglitz

writes: ‘The crisis will almost surely make a change in the global economic and political order. America’s power and influence will be diminished, China’s increased.’ (Stiglitz, 2010, p. 234).

The future shape of western Europe’s different models of capitalism cannot easily be discerned. The crisis probably marks the end of the era of US economic hegemony and of the financialisation of capitalism on which it sought to base its global power (Arrighi, 2007). But the social market and social democratic capitalisms also face the ongoing problem of declining rates of profit in a super-competitive global economy to which financialisation sought to provide an answer. Many social market and social democratic economies have competed well through developing high technology niches in the knowledge-driven manufacturing and service sectors. The unhappy results of UK’s near abandonment of manufacturing for high risk, finance-driven growth will strengthen the case for innovation in new areas of manufacturing, not least in the environmental industries. But many of the emerging Asian economies are only a few paces behind in these same sectors, and will challenge the competitive advantage of western economies with their lower costs for many years to come. The best hope for economic growth in West and East alike lies in a sustainable increase in world demand. This may necessitate a substantial transfer of resources from the richer to the poorer nations, and fairer distribution of resources within countries. Perhaps the major legacy of the 2008 crisis will be political in as much as it re-emphasis the role of the state, not least in redistribution. Those models of capitalism, as in the Nordic countries, which have maintained the balance between states and markets, and appreciated the importance of fair distribution to economic growth, have not only survived the crisis relatively intact. They may also have important lessons to teach the rest of the world.

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Appendix: Statistics

- This appendix contains the IMF's Macro-statistics.
- The statistics on public debt for the Nordic countries, Ireland, Spain, Australia, China and India are obtained from the CIA world fact book.
- The Statistics on Households' financial liabilities are obtained from Euro-Stat's economic data pocketbook (3-2009). Financial liabilities of households include all instruments used by households to get into debt. But as shown in a report by Euro-Stat (Financial Assets and Liabilities of Households in the European Union, Ahamdanech. I, 2009), Loans represent more than 90% of all liabilities in all European Countries.
- It should be noted that total debt as percentage of GDP is obtained by adding public debt as percent of GDP for 2009 to household financial liabilities as percent of GDP for 2008. The reason behind using different figures from 2008 and 2009 is that household debt figures for 2009 were not available. Further, household debt does change drastically over time; hence we can reasonable assume that the figures from 2008 are very close to those of 2009.

Country	Subject Descriptor	Units	2008	2009	2010	2012
Australia	Gross domestic product, constant prices	Annual percent change	2.35	0.73	1.96	3.42
Australia	Investment	Percent of GDP				
Australia	Gross national savings	Percent of GDP				
Australia	Inflation, average consumer prices	Annual percent change	4.35	1.63	1.45	2.63
Australia	Unemployment rate	Percent of total labour force	4.24	6	6.95	n/a
Australia	General government balance	Percent of GDP	-0.76	-4.25	-5.28	n/a
Australia	General government net debt	Percent of GDP				
Australia	Household Financial liabilities.	Percent of GDP				
Australia	Total debt (Public + Private)	Percent of GDP				
Australia	Current account balance	Percent of GDP	-4.6	-3.25	-5.57	-6.87
Austria	Gross domestic product, constant prices	Annual percent change	2.05	-3.82	0.3	2.03
Austria	Investment	Percent of GDP				
Austria	Gross national savings	Percent of GDP				
Austria	Inflation, average consumer prices	Annual percent change	3.22	0.47	1	1.2

Country	Indicator	Units	Year 1	Year 2	Year 3	Year 4
Austria	Unemployment rate	Percent of total labour force	3.9	5.27	6.4	n/a
Austria	General government balance	Percent of GDP	-0.46	-4.21	-5.57	n/a
Austria	General government net debt	Percent of GDP	58.8	68.2		
Austria	Household Financial liabilities.	Percent of GDP	52.8			
Austria	Total debt (Public + Private)	Percent of GDP		121		
Austria	Current account balance	Percent of GDP	3.48	2.11	1.97	1.86
Belgium	Gross domestic product, constant prices	Annual percent change	0.97	-3.18	0.04	2
Belgium	Investment	Percent of GDP				
Belgium	Gross national savings	Percent of GDP				
Belgium	Inflation, average consumer prices	Annual percent change	4.49	0.15	1	1.26
Belgium	Unemployment rate	Percent of total labour force	7	8.69	9.88	n/a
Belgium	General government balance	Percent of GDP	-1.25	-5.86	-6.34	n/a
Belgium	General government net debt	Percent of GDP	80.8	99		
Belgium	Household Financial liabilities.	Percent of GDP	50.3			
Belgium	Total debt (Public + Private)	Percent of GDP		149.3		
Belgium	Current account balance	Percent of GDP	-2.55	-0.97	-0.94	-0.17
Canada	Gross domestic product, constant prices	Annual percent change	0.41	-2.48	2.13	3.26
Canada	Investment	Percent of GDP	23.2	21.21	20.89	n/a
Canada	Gross national savings	Percent of GDP	23.71	18.61	19.05	n/a
Canada	Inflation, average consumer prices	Annual percent change	2.39	0.15	1.26	1.99
Canada	Unemployment rate	Percent of total labour force	6.16	8.33	8.65	n/a
Canada	General government balance	Percent of GDP	0.13	-4.94	-4.09	-1.26
Canada	General government net debt	Percent of GDP	22.18	28.24	31.26	31.41
Canada	Household Financial liabilities.	Percent of GDP				
Canada	Total debt (Public + Private)	Percent of GDP				
Canada	Current account balance	Percent of GDP	0.51	-2.6	-1.84	-0.46
China	Gross domestic product, constant prices	Annual percent change	9.01	8.5	9.03	9.84
China	Investment	Percent of GDP				
China	Gross national savings	Percent of GDP				
China	Inflation, average consumer prices	Annual percent change	5.92	-0.06	0.65	1.9
China	Unemployment rate	Percent of total labour force				
China	General government balance	Percent of GDP				
China	General government net debt	Percent of GDP				

China	Household Financial liabilities.	Percent of GDP				
China	Total debt (Public + Private)	Percent of GDP				
China	Current account balance	Percent of GDP	9.85	7.81	8.57	9.12
Denmark	Gross domestic product, constant prices	Annual percent change	-1.2	-2.43	0.92	2.56
Denmark	Investment	Percent of GDP				
Denmark	Gross national savings	Percent of GDP				
Denmark	Inflation, average consumer prices	Annual percent change	3.4	1.68	2.02	2
Denmark	Unemployment rate	Percent of total labour force	1.73	3.5	4.2	n/a
Denmark	General government balance	Percent of GDP	3.43	-1.34	-3.48	n/a
Denmark	General government net debt	Percent of GDP	21	38		
Denmark	Household Financial liabilities.	Percent of GDP	148.3			
Denmark	Total debt (Public + Private)	Percent of GDP		186.3		
Denmark	Current account balance	Percent of GDP	0.99	1.09	1.48	1.28
Finland	Gross domestic product, constant prices	Annual percent change	1.04	-6.36	0.94	2.5
Finland	Investment	Percent of GDP				
Finland	Gross national savings	Percent of GDP				
Finland	Inflation, average consumer prices	Annual percent change	3.9	1	1.1	1.5
Finland	Unemployment rate	Percent of total labour force	6.36	8.74	9.75	n/a
Finland	General government balance	Percent of GDP	4.41	-2.9	-4.2	n/a
Finland	General government net debt	Percent of GDP	33	48		
Finland	Household Financial liabilities.	Percent of GDP	57.3			
Finland	Total debt (Public + Private)	Percent of GDP		105.3		
Finland	Current account balance	Percent of GDP	2.37	0.54	1.97	2.85
France	Gross domestic product, constant prices	Annual percent change	0.32	-2.36	0.9	1.93
France	Investment	Percent of GDP	22.18	19.88	19.79	n/a
France	Gross national savings	Percent of GDP	19.93	18.87	18.41	n/a
France	Inflation, average consumer prices	Annual percent change	3.16	0.34	1.14	1.78
France	Unemployment rate	Percent of total labour force	7.89	9.54	10.27	n/a
France	General government balance	Percent of GDP	-3.4	-7.03	-7.13	-6.13
France	General government net debt	Percent of GDP	57.76	66.98	72.91	79.94
France	Household Financial liabilities.	Percent of GDP	63.3			
France	Total debt (Public + Private)	Percent of GDP		130.28		
France	Current account balance	Percent of GDP	-2.26	-1.16	-1.42	-1.29

Germany	Gross domestic product, constant prices	Annual percent change	1.25	-5.3	0.34	1.74
Germany	Investment	Percent of GDP	19.18	16.91	15.64	n/a
Germany	Gross national savings	Percent of GDP	25.58	19.82	19.25	n/a
Germany	Inflation, average consumer prices	Annual percent change	2.75	0.14	0.18	0.3
Germany	Unemployment rate	Percent of total labour force	7.4	8.02	10.69	n/a
Germany	General government balance	Percent of GDP	-0.13	-4.16	-4.63	-2.16
Germany	General government net debt	Percent of GDP	60.51	70.31	76.16	81.57
Germany	Household Financial liabilities.	Percent of GDP	61.4			
Germany	Total debt (Public + Private)	Percent of GDP		131.71		
Germany	Current account balance	Percent of GDP	6.41	2.91	3.61	4.57
Greece	Gross domestic product, constant prices	Annual percent change	2.93	-0.75	-0.06	1.15
Greece	Investment	Percent of GDP				
Greece	Gross national savings	Percent of GDP				
Greece	Inflation, average consumer prices	Annual percent change	4.24	1.13	1.7	1.8
Greece	Unemployment rate	Percent of total labour force	7.65	9.5	10.5	n/a
Greece	General government balance	Percent of GDP	-5.02	-6.4	-7.11	n/a
Greece	General government net debt	Percent of GDP	90.1	108.1		
Greece	Household Financial liabilities.	Percent of GDP	60			
Greece	Total debt (Public + Private)	Percent of GDP		168.1		
Greece	Current account balance	Percent of GDP	-14.42	-9.98	-9.03	-7.84
India	Gross domestic product, constant prices	Annual percent change	7.35	5.36	6.42	7.63
India	Investment	Percent of GDP				
India	Gross national savings	Percent of GDP				
India	Inflation, average consumer prices	Annual percent change	8.35	8.66	8.41	4.08
India	Unemployment rate	Percent of total labour force				
India	General government balance	Percent of GDP				
India	General government net debt	Percent of GDP				
India	Household Financial liabilities.	Percent of GDP				
India	Total debt (Public + Private)	Percent of GDP				
India	Current account balance	Percent of GDP	-2.21	-2.21	-2.51	-2.16
Ireland	Gross domestic product, constant prices	Annual percent change	-3.04	-7.5	-2.5	2.34
Ireland	Investment	Percent of GDP				
Ireland	Gross national savings	Percent of GDP				

Ireland	Inflation, average consumer prices	Annual percent change	3.11	-1.58	-0.3	1.07
Ireland	Unemployment rate	Percent of total labour force	6.12	12	15.5	n/a
Ireland	General government balance	Percent of GDP	-7.3	-12.1	-13.25	n/a
Ireland	General government net debt	Percent of GDP	31.5	63.7		
Ireland	Household Financial liabilities.	Percent of GDP	113.4			
Ireland	Total debt (Public + Private)	Percent of GDP		177.1		
Ireland	Current account balance	Percent of GDP	-5.19	-1.73	0.59	-0.12
Italy	Gross domestic product, constant prices	Annual percent change	-1.04	-5.15	0.24	1.35
Italy	Investment	Percent of GDP	21.19	18.07	17.38	n/a
Italy	Gross national savings	Percent of GDP	17.78	15.56	15.03	n/a
Italy	Inflation, average consumer prices	Annual percent change	3.5	0.75	0.94	1.3
Italy	Unemployment rate	Percent of total labour force	6.8	9.1	10.5	n/a
Italy	General government balance	Percent of GDP	-2.73	-5.6	-5.63	-5.54
Italy	General government net debt	Percent of GDP	103.6	112.8	116.98	122.79
Italy	Household Financial liabilities.	Percent of GDP	53.2			
Italy	Total debt (Public + Private)	Percent of GDP		166		
Italy	Current account balance	Percent of GDP	-3.41	-2.51	-2.34	-2.71
Japan	Gross domestic product, constant prices	Annual percent change	-0.71	-5.37	1.68	2.32
Japan	Investment	Percent of GDP	23.51	21.25	21.35	n/a
Japan	Gross national savings	Percent of GDP	26.64	23.22	23.37	n/a
Japan	Inflation, average consumer prices	Annual percent change	1.4	-1.13	-0.78	0.13
Japan	Unemployment rate	Percent of total labour force	3.99	5.4	6.13	n/a
Japan	General government balance	Percent of GDP	-5.8	-10.46	-10.22	-7.56
Japan	General government net debt	Percent of GDP	88.06	104.64	114.96	129.57
Japan	Household Financial liabilities.	Percent of GDP				
Japan	Total debt (Public + Private)	Percent of GDP				
Japan	Current account balance	Percent of GDP	3.2	1.92	2.04	2.22
Netherlands	Gross domestic product, constant prices	Annual percent change	2	-4.17	0.67	1.66
Netherlands	Investment	Percent of GDP				
Netherlands	Gross national savings	Percent of GDP				
Netherlands	Inflation, average consumer prices	Annual percent change	2.21	0.88	0.95	1.2
Netherlands	Unemployment rate	Percent of total labour force	2.75	3.79	6.64	n/a
Netherlands	General government balance	Percent of GDP	0.9	-3.83	-5.74	n/a

Netherlands	General government net debt	Percent of GDP	43	62.3		
Netherlands	Household Financial liabilities.	Percent of GDP	120.7			
Netherlands	Total debt (Public + Private)	Percent of GDP		183		
Netherlands	Current account balance	Percent of GDP	7.5	7.05	6.82	7.07
New Zealand	Gross domestic product, constant prices	Annual percent change	0.19	-2.18	2.21	2.98
New Zealand	Investment	Percent of GDP				
New Zealand	Gross national savings	Percent of GDP				
New Zealand	Inflation, average consumer prices	Annual percent change	3.96	1.53	1.04	1.79
New Zealand	Unemployment rate	Percent of total labour force	4.2	5.9	7.86	n/a
New Zealand	General government balance	Percent of GDP	-2.49	-3.59	-5.19	n/a
New Zealand	General government net debt	Percent of GDP				
New Zealand	Household Financial liabilities.	Percent of GDP				
New Zealand	Total debt (Public + Private)	Percent of GDP				
New Zealand	Current account balance	Percent of GDP	-8.9	-7.09	-6.72	-6.28
Norway	Gross domestic product, constant prices	Annual percent change	2.13	-1.91	1.27	1.88
Norway	Investment	Percent of GDP				
Norway	Gross national savings	Percent of GDP				
Norway	Inflation, average consumer prices	Annual percent change	3.77	2.33	1.79	2.5
Norway	Unemployment rate	Percent of total labour force	2.6	3.3	3.8	n/a
Norway	General government balance	Percent of GDP	18.77	7.12	11.76	n/a
Norway	General government net debt	Percent of GDP	52	60		
Norway	Household Financial liabilities.	Percent of GDP	82.5			
Norway	Total debt (Public + Private)	Percent of GDP		142.5		
Norway	Current account balance	Percent of GDP	19.48	13.93	15.65	14.92
Portugal	Gross domestic product, constant prices	Annual percent change	-0.05	-3	0.4	1.3
Portugal	Investment	Percent of GDP				
Portugal	Gross national savings	Percent of GDP				
Portugal	Inflation, average consumer prices	Annual percent change	2.65	-0.58	0.96	1.6
Portugal	Unemployment rate	Percent of total labour force	7.6	9.45	11	n/a
Portugal	General government balance	Percent of GDP	-2.61	-6.89	-7.35	n/a
Portugal	General government net debt	Percent of GDP	64.2	75.2		
Portugal	Household Financial liabilities.	Percent of GDP	105.6			
Portugal	Total debt (Public + Private)	Percent of GDP		180.8		

Portugal	Current account balance	Percent of GDP	-12.13	-9.86	-9.67	-9.14
Spain	Gross domestic product, constant prices	Annual percent change	0.86	-3.77	-0.74	1.44
Spain	Investment	Percent of GDP				
Spain	Gross national savings	Percent of GDP				
Spain	Inflation, average consumer prices	Annual percent change	4.13	-0.29	0.86	0.94
Spain	Unemployment rate	Percent of total labour force	11.33	18.2	20.2	n/a
Spain	General government balance	Percent of GDP	-3.85	-12.27	-12.47	n/a
Spain	General government net debt	Percent of GDP	37.5	59.5		
Spain	Household Financial liabilities.	Percent of GDP	87.7			
Spain	Total debt (Public + Private)	Percent of GDP		147.2		
Spain	Current account balance	Percent of GDP	-9.59	-6.03	-4.67	-4.11
Sweden	Gross domestic product, constant prices	Annual percent change	-0.16	-4.83	1.17	3
Sweden	Investment	Percent of GDP				
Sweden	Gross national savings	Percent of GDP				
Sweden	Inflation, average consumer prices	Annual percent change	3.3	2.25	2.37	2
Sweden	Unemployment rate	Percent of total labour force	6.17	8.5	8.2	n/a
Sweden	General government balance	Percent of GDP	2.52	-3.49	-3.91	n/a
Sweden	General government net debt	Percent of GDP	36	43		
Sweden	Household Financial liabilities.	Percent of GDP	79			
Sweden	Total debt (Public + Private)	Percent of GDP		122		
Sweden	Current account balance	Percent of GDP	7.78	6.39	5.44	5.91
Switzerland	Gross domestic product, constant prices	Annual percent change	1.78	-1.95	0.48	1.25
Switzerland	Investment	Percent of GDP				
Switzerland	Gross national savings	Percent of GDP				
Switzerland	Inflation, average consumer prices	Annual percent change	2.43	-0.4	0.5	1
Switzerland	Unemployment rate	Percent of total labour force	2.66	3.48	4.55	n/a
Switzerland	General government balance	Percent of GDP	0.92	-1.54	-1.52	n/a
Switzerland	General government net debt	Percent of GDP				
Switzerland	Household Financial liabilities.	Percent of GDP				
Switzerland	Total debt (Public + Private)	Percent of GDP				
Switzerland	Current account balance	Percent of GDP	2.41	6.14	7.12	9.01
UK	Gross domestic product, constant prices	Annual percent change	0.74	-4.39	0.91	2.87
UK	Investment	Percent of GDP	17	13.66	14.14	n/a

UK	Gross national savings	Percent of GDP	15.27	11.62	12.19	n/a
UK	Inflation, average consumer prices	Annual percent change	3.63	1.89	1.5	1.82
UK	Unemployment rate	Percent of total labour force	5.55	7.65	9.33	n/a
UK	General government balance	Percent of GDP	-5.13	-11.58	-13.21	-9.35
UK	General government net debt	Percent of GDP	45.61	62.11	75.06	87.56
UK	Household Financial liabilities.	Percent of GDP	108.1			
UK	Total debt (Public + Private)	Percent of GDP		170.21		
UK	Current account balance	Percent of GDP	-1.73	-2.04	-1.95	-2.09
US	Gross domestic product, constant prices	Annual percent change	0.44	-2.73	1.52	2.62
US	Investment	Percent of GDP	18.23	14.98	14.95	n/a
US	Gross national savings	Percent of GDP	12.63	10.96	12.64	n/a
US	Inflation, average consumer prices	Annual percent change	3.8	-0.39	1.72	2.19
US	Unemployment rate	Percent of total labour force	5.81	9.26	10.15	n/a
US	General government balance	Percent of GDP	-5.85	-12.46	-9.96	-6.25
US	General government net debt	Percent of GDP	47.91	58.21	66.85	76.24
US	Household Financial liabilities.	Percent of GDP				
US	Total debt (Public + Private)	Percent of GDP				
US	Current account balance	Percent of GDP	-4.89	-2.59	-2.21	-2.86

- Per capita gross domestic product based on purchasing-power-parity (PPP) - Current international Dollar.

Country	2007
Denmark	37,162.89
Finland	35,276.98
Norway	52,228.80
Sweden	36,733.23
France	33,563.43
Germany	34,326.02
Austria	38,331.95
Belgium	35,434.25
Netherlands	39,137.63
UK	35,512.01
US	46,673.95

Countries	2007
SME	36158.65
SDE	40350.47
UK	35,512.01
US	46,673.95

- Employment rates (15 to 64 years) for 2007.

Country	Employment rates (15 to 64 years)
Denmark	77.1
Finland	70.3
Norway	76.8
Sweden	74.2
France	64.3
Germany	69.4
Austria	71.4
Belgium	62
Netherlands	76
UK	71.5
US	71.8

Countries	Employment rates (15 to 64 years)
SME	68.62
SDE	74.6
UK	71.5
US	71.8

- GDP per hour worked - current international dollar per hour.

Country	2007
Denmark	48.84
Finland	48.25
Norway	78.13
Sweden	51.51
France	55.62
Germany	54.72
Austria	51.57
Belgium	60.20
Netherlands	59.99
UK	48.95
US	55.03

Country	2007
SME	56.42
SDE	56.69
UK	48.95
US	55.03

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