

Varieties of Capitalism

Political Science

Market economies are organised in systematically different ways.

Liberal market economies

- Coordination through competitive markets
- Arm's-length finance and equity
- Fluid labour markets, general skills
- Radical innovation strengths
- US, UK, Australia

Coordinated market economies

- Coordination through institutions
- Bank and relational finance
- Longer job tenure, specific skills
- Incremental innovation strengths
- Germany, Japan, Sweden

THE DIFFERENCE THAT MATTERS

Neither is simply better. Each supports a different kind of firm and a different kind of innovation.

Educational reference. Institutional complementarity means reforms borrowed piecemeal from another model often underperform.