More on Testing the Varieties of Capitalism

Reply to "Which Variety of Measure and Test
are Best to Assess the 'Varieties of Capitalism' Framework"
by Matthew Allen

By Mihai Paunescu and Martin Schneider

In his comment, Matthew Allen reacts to our test of the varieties of capitalism (VoC) approach. We warmly welcome his response because the systematic empirical examination of the main hypotheses and implications of the VoC approach are only at an initial stage.

Allen first suggests as an alternative dependent variable Balassa's measure of revealed comparative advantage. In essence, this measure captures the extent to which a national economy exports certain goods in comparison to the other OECD countries. The main advantage of this measure, Allen argues, is that it controls for differences between products in terms of tradability. We went back to our data and used Balassa's revealed comparative advantage as dependent variable. The results of this further regression analysis confirm our previous finding: Liberal market economies show a comparative advantage in the high-tech sector over coodinated market economies (and other types of countries) (see Table 1). Therefore, in practical terms, it does not seem to make a difference which measure of revealed comparative advantage is chosen. In our dataset, Balassa's revealed comparative advantage in the high-tech sector and our original measure, contribution of the high-tech sector to the trade balance, have a correlation coefficient of 0.85.

Perhaps our measure is not so different from Balassa's after all. The OECD indeed claims that "the measure can be interpreted as an indicator of 'revealed comparative advantage'" (OECD 1999, 100). It relates net exports of a sector to the net exports of all sectors of that same economy. Taking net exports, that is, exports minus imports, also controls for the fact that some products are traded internationally more intensely than other products. Net exports have the additional advantage that they correct for the fact that an economy may be competitive in a sector only because the companies source intermediate products in the same sector. Furthermore, relating exports to exports in all sectors of the same economy controls for differences in terms of labour costs, the exchange rate, and other factors that may influence the comparative advantage of a whole economy.

**Varieties of capitalism and Balassa's revealed comparative advantage
in the high-tech sector (countries assigned to the variety of capitalism
according to Paunescu / Schneider 2004: 54)**

Independent variables	Dependent variable: Balassa's revealed comparative advantage in the high-tech sector
CMEs	−18.0975 (1.17)
Mediterranean economies	−57.1555 (3.10)***
Central / Eastern Europe	−54.1083 (2.08)**
Gross Domestic Product	0.0004 (0.47)
Year 1995	−6.4479 (0.40)
Year 1999	13.1512 (0.82)
Constant	98.6083 (3.89)***
Observations	67
Adjusted R-squared	0.18

Absolute value of t-statistics in parentheses.
* significant at 10%; ** significant at 5%; *** significant at 1%.

In his second point, Allen criticizes our use of statistical methods that
wrongly imply that a particular institutional framework is a sufficient condi-
tion (rather than a necessary condition) for a comparative institutional advan-
tage of an economy. Hence, according to Allen, our regression analysis con-
flates necessary and sufficient conditions. This point does not apply to our test
because we chose the level of the national economy as unit of analysis. In
each economy, there are likely to be companies that will not fit the specializa-
tion pattern predicted by the VoC framework. For instance, German compa-
nies in the medium high-tech sector may not be as competitive as some of
their British counterparts although the institutional frameworks in both coun-
tries suggest the opposite. Nevertheless, in the absence of a large number of
such odd cases, we will find empirical evidence of the predicted specialization
pattern at the aggregate level, that is, at the level of the national economy.
This may be stated in probabilistic terms (Ebbinghaus 2005): In the German
institutional framework, companies are more likely than in the British institu-
tional framework to attain a comparative advantage in products of the medium
high-tech sector; therefore, we observe the specialization pattern in the aggre-

gate, although not each and every company fits the pattern. Hence, in our interpretation, Allen's point does not affect our results and the conclusions we draw from them. Even so, we agree with his suggestion that the VoC approach should be tested at the level of the company in countries with differing institutional frameworks, and we hope to see more such attempts in future. In addition, we would find it interesting to analyse the behaviour of multinational enterprises in different institutional frameworks (see Bellak 2005).

References

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