Expanding the framework of the varieties of capitalism: Turkey as a hierarchical market economy

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ABSTRACT

This article both extends the debate on the varieties of capitalism theory beyond the existing literature to solve the ambiguous position of the variety of capitalism that is found in Turkey and brings a novel approach to the studies of the political economy of Turkey by adopting a firm-centred position using the varieties of capitalism framework. Based on a qualitative comparison with the dependent market economies (DMEs), mixed market economies (MMEs) and hierarchical market economies (HMEs), this article claims that Turkey is a hierarchical market economy with four characteristic features that are also found in Latin American economies. These core features are the dominance of the family-owned diversified business groups, state-regimented and weak industrial relations, low skills and the influence of MNCs.

1. Introduction

Varieties of Capitalism theory has been developed by Hall and Soskice to categorise and describe developed capitalist market economies based on the juxtaposition of Liberal Market Economies (LMEs) which is characterised by arm’s length interaction among market actors and the Coordinated Market Economies (CME) in which informal networks and collaborative arrangements accompany market relations. Taking a firm-centred position, Hall and Soskice argue that firms in LMEs or CMEs are operating in an environment conditioned by complementary institutional structures, which determine their corporate strategy for innovation or investment. In the original study, six of the OECD countries are categorised as LMEs (the United States, Ireland, the United Kingdom, Canada, Australia and New Zealand) while ten as CMEs (Japan, Germany, Denmark, Sweden, the Netherlands, Belgium, Switzerland, Austria, Finland and Japan) (Hall & Soskice, 2001, pp. 1–68).

Hall and Soskice left ‘France, Italy, Spain, Portugal, Greece and Turkey in more ambiguous positions’, and indicated that these countries ‘show some signs of institutional clustering which may be described as Mediterranean Market Economy’, featured by a large agrarian sector, widespread state intervention and liberalised labour relations (Hall & Soskice, 2001, p. 21). In the last decade, researchers have used Varieties of Capitalism framework to define distinctive forms of capitalism in Southern Europe, Latin America, Central and Eastern Europe and Asia. Ben Schneider has analysed Latin American countries with the Varieties of Capitalism approach and coined the term “Hierarchical Market Economies” (HMEs) for these countries given the patronage relationship between the state and businesses and among firms in these countries (Schneider, 2009). Nolke and Vliegenthart have enlarged the studies of Varieties of
Capitalism in their work for the Central and Eastern European countries (which had also been studied by King in a separate study previously) and they have defined these countries as “Dependent Market Economies” (DMEs) since the Central and Eastern European countries are highly reliant on the foreign direct investments (FDIs) and transnational corporations (TNCs) (Nolke & Vliegenthart, 2009) (King, 2007). Molina and Rhodes investigated the market mechanisms and informal coordination structure of two Southern European countries, Italy and Spain. Focusing on the welfare regimes and production systems of these two countries they have arrived to the conclusion that these two countries can be defined as Mixed Market Economies in which state has an extensive role to compensate the deficiencies of the institutional structure in these countries (Molina & Rhodes, 2008). Though Molina and Rhodes have abstained to embrace the term state-led capitalism for Italy and Spain (2008, p. 227), Schmidt claimed that she brought the role of the state into the Varieties of Capitalism framework by defining Italy, France and Spain as State-Influenced Market Economies (SMEs) given the distinctive influence of the state over labour and business (Schmidt, 2007, p. 4). Witt and Redding have compared 13 major Asian countries with one another and Germany, the UK, the US, France and Sweden and have concluded that the Varieties of Capitalism framework is not applicable to Asia given the heterogeneity and differing characteristics of business systems in different Asian countries (Witt & Redding, 2013).

This paper has multiple goals. Firstly, it aims to give a new impulsion to the varieties of capitalism theory by extending the debate beyond the existing literature to clarify the vague presumptions regarding the variety of capitalism that is found in Turkey. Secondly, it intends to bring a novel approach to the studies of the political economy of Turkey by adopting a firm-centred approach and by analysing the institutional complementarities using the varieties of capitalism framework in order to fill the gaps that are left by the previous studies. Thirdly, its objective is to form a basis for a comprehensive overview of the institutional settings of Turkey in a comparative perspective.

Relying largely on the qualitative comparison with the DMEs, SMEs and HMEs, the fundamental claim of this paper is that Turkey is a hierarchical market economy. There are four core features of the variety of capitalism in Turkey that put it into the category of the Hierarchical Market Economy as Latin American countries. The dominance of the family-owned diversified business groups in the economy, state-regimented and weak industrial relations, low skills and the influence of the Multi-National Corporations. Similar to the grupo economicos in the Latin American economies, family conglomerates called ‘holding’ constitute the dominant form of corporate governance contrary to the DMEs, where MNCs are dominant. 28 out of the 50 largest companies in Turkey are the family-owned diversified business groups while the remaining 22 companies are either the subsidiaries of MNCs or the state-owned enterprises (Colpan, 2010). Trade unions are nearly ineffective in Turkey in contrast to the MMEs, the collective bargaining mechanism is absent, the labour union density is as low as 7% with the contribution of the large informal sector (Celik & Lordoglu, 2006). Though the investments in education and vocational training by the government and the family conglomerates has gained a momentum since the last decade, Turkey’s human capital levels are below the average education levels than in DMEs and MMEs (Bartlett, 2013).

In the next section, the core features of the original study of Hall and Soskice are demonstrated briefly, followed by an analysis of the three varieties of capitalism, namely, DMEs, SMEs and HMEs, which are the subjects of the comparison in this paper. Then, in parallel with the original framework of the varieties of capitalism, five fundamental and interdependent institutions of capitalism in Turkey are compared to those in DMEs, HMEs and SMEs to reveal institutional complementarities between these elements.

2. Varieties of capitalism: From a dichotomy to the variety

The comprehensive approach of the Varieties of Capitalism, taking the legal, political and economic aspects, norms and institutions into its consideration reflects its novel emphasis on the institutional complementarities (Hall & Soskice, 2001). Economic performances of the developed capitalist economies are products of complementary institutional settings. Cooperative wage-bargaining process in the Coordinated Market Economies such as Germany, for example, is connected to the industry-specific training and the social security regime. Bank-based finance of the firms and the corporate governance regimes are complemented by the investment strategies and the higher wages as a result of strong labour unions which enforce companies to be competitive in diversified quality production. In the United States, as a Liberal Market Economy, weak labour unions and flexible labour markets are complemented by a robust tertiary education which provides general skills rather than industry-specific training. Shareholder-based corporate governance and the stock markets-based financial system allow firms to take greater risks with new technologies or strategies which are supported by the flexibility in labour contracts, which in the end, increases the firms’ competitiveness in LMEs in radically innovative sectors.

Founders of the Varieties of Capitalism have revealed that each type of market economy restrains the firms to target an innovative production strategy that can fit the institutional settings of the type of economy in which the firms operate. In the Liberal Market Economies, such as the United States or the United Kingdom, firms are tended to be successful in the radically innovative sectors such as pharmaceuticals or telecommunication since the weak trade union, flexible labour markets with general skills and the shareholder-based financial system allow the companies in the LMEs to make rapid decisions or take risks as well as hire and fire employees easily. In the Coordinated Market Economies, such as Germany or Japan, rigidity in the labour markets, which are also supported by strong trade unions, and the long-term interaction among workers and employers under the protection of the business law-based on a stakeholder-oriented model make the companies operating in these economies to be successful in the sectors associated with incremental innovation strategies, such as automotive and machinery (Hall & Soskice, 2001).
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